

# H.R. 3184, SINGLE AUDIT ACT AMENDMENTS OF 1996

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,  
INFORMATION, AND TECHNOLOGY  
OF THE  
COMMITTEE ON GOVERNMENT  
REFORM AND OVERSIGHT  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED FOURTH CONGRESS  
SECOND SESSION  
ON  
**H.R. 3184**

TO STREAMLINE AND IMPROVE THE EFFECTIVENESS OF CHAPTER 75  
OF TITLE 31, UNITED STATES CODE (COMMONLY REFERRED TO AS  
THE "SINGLE AUDIT ACT")

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MARCH 29, 1996

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Printed for the use of the Committee on Government Reform and Oversight



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# **H.R. 3184, SINGLE AUDIT ACT AMENDMENTS OF 1996**

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**FRIDAY, MARCH 29, 1996**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,  
INFORMATION, AND TECHNOLOGY,  
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 311, Cannon House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Davis, Fox, Tate, Maloney, and Peterson.

Staff present: J. Russell George, staff director and counsel; Anna Miller, professional staff member; Mark Uncapher, professional staff member and counsel; Andrew G. Richardson, clerk; and David McMillen, Mark Stephenson, and Liza Mientus, minority professional staff members.

Mr. HORN. This Subcommittee on Government Management, Information, and Technology will please come to order. This morning we are holding a legislative hearing on a bill I have offered entitled, "The Single Audit Act Amendments of 1996." The purpose of H.R. 3184 is to provide needed changes to the Single Audit Act of 1984.

The bill provides administrative flexibility to current statutory requirements and allows for a more efficient and cost-effective audit approach; it also reduces unnecessary audit burdens on recipients of Federal assistance while at the same time ensuring that accountability for the use of Federal funds is maintained.

The Single Audit Act of 1984 replaced a disparate approach to audits of individual State and local programs which received Federal funds.

Prior to its passage there existed a system of multiple grant-by-grant audits. This created a scenario where an organization receiving Federal funds from more than one Federal source could find itself spending vast amounts of time and resources providing identical information for the Federal auditors simply because the funding came from different Government agencies. Often the agencies would schedule audits at the same time, resulting in a situation where several Federal auditors competed for the same records.

Making matters worse, there also existed a myriad of overlapping, inconsistent, and, too often, duplicative Federal agency requirements for audits of individual programs.

The 1984 act, we believe, was a great improvement. It provided a uniform requirement for audits and a comprehensive organization-wide approach to the audits—hence the term “single audit.” Federal agencies agreed to use the single audit as much as practical, foregoing additional program audits.

Since its enactment, the passing of time has revealed the need for changes to the original 1984 act. The threshold for requiring a single audit originally had been intended to make sure that at least 95 percent of Federal assistance to grant recipients would be monitored by a single audit of the entire recipient organization.

In fact, however, the mandated threshold has resulted in almost 100 percent of Federal funds being subject to audit. While an accounting of the use of all Federal funding received seems appealing, the adverse impact this Federal mandate has had on low-risk groups has prompted many of them to appeal to Congress for an increase in the threshold.

These groups have pointed out that Government accountability would not be impaired by this action because monitoring requirements would still be in place and agencies can further arrange for separate audit of the programs. In 1990, pursuant to the Budget and Accounting Act, the Office of Management and Budget issued guidance on audits for colleges, universities, and other not-for-profit institutions in the form of OMB Circular A-133.

The circular brought nonprofits under the single audit requirements. By including not-for-profit organizations in H.R. 3184, these organizations will be allowed to share the benefits of higher threshold, the new risk-based approach, and the benefits of streamlining reporting requirements.

This proposal resulted from efforts commenced in the early 1990's to assess the effectiveness of the 1984 act. Three surveys were independently conducted to determine the effectiveness of the 1984 act. Three surveys were independently conducted to determine what could be improved.

The studies by the National State Auditors Association, the President's Council on Integrity and Efficiency, and the General Accounting Office each resulted in reports which prompted the bill before us today.

Some of the bill's most important provisions include: As I noted, the broadening of the scope of the Single Audit Act to include non-profit organizations along with State and local governments that receive Federal assistance.

This change will allow OMB to develop one consolidated body of audit requirements for recipients of Federal assistance. It has the added benefit of reducing the burden on nonprofit organizations currently following OMB Circular A-133.

The Federal burden on many of these entities now required to have single audits will be reduced by the proposal while retaining the same level of audit coverage for the 1984 act. This occurs by raising the Federal dollar threshold for requiring a single audit from \$100,000 to \$300,000. This will benefit smaller entities which no longer will be burdened by existing OMB Circular A-133 regulations.

In addition, the bill will allow for a risk-based approach to audit testing. This will encourage the refocussing of audit resources to

places where there is the greatest risk of waste, fraud, or abuse. Based on OMB guidance, auditors will be able to exercise good professional judgment in selecting programs for testing rather than automatically auditing the same programs year after year.

Finally, the bill gives OMB the authority to review and adjust the threshold for single audits and revise as needed the criteria for selecting programs for testing. This will improve the usefulness of the reports generated by the single audit process by expediting their submission.

[The text of H.R. 3184 follows:]

104TH CONGRESS  
2D SESSION

# H. R. 3184

To streamline and improve the effectiveness of chapter 75 of title 31, United States Code (commonly referred to as the "Single Audit Act").

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## IN THE HOUSE OF REPRESENTATIVES

MARCH 28, 1996

Mr. HORN (for himself, Mr. CLINGER, Mr. DAVIS, Mrs. MALONEY, and Mr. PETERSON of Minnesota) introduced the following bill; which was referred to the Committee on Government Reform and Oversight

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## A BILL

To streamline and improve the effectiveness of chapter 75 of title 31, United States Code (commonly referred to as the "Single Audit Act").

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE; PURPOSES.**

4       (a) **SHORT TITLE.**—This Act may be cited as the  
5       "Single Audit Act Amendments of 1996".

6       (b) **PURPOSES.**—The purposes of this Act are to—

7               (1) promote sound financial management, in-  
8       cluding effective internal controls, with respect to



1 Federal awards administered by non-Federal enti-  
2 ties;

3 (2) establish uniform requirements for audits of  
4 Federal awards administered by non-Federal enti-  
5 ties;

6 (3) promote the efficient and effective use of  
7 audit resources;

8 (4) reduce burdens on State and local govern-  
9 ments, Indian tribes, and nonprofit organizations;  
10 and

11 (5) ensure that Federal departments and agen-  
12 cies, to the maximum extent practicable, rely upon  
13 and use audit work done pursuant to chapter 75 of  
14 title 31, United States Code (as amended by this  
15 Act).

16 **SEC. 2. AMENDMENT TO TITLE 31, UNITED STATES CODE.**

17 Chapter 75 of title 31, United States Code, is amend-  
18 ed to read as follows:

19 **"CHAPTER 75—REQUIREMENTS FOR**  
20 **SINGLE AUDITS**

"Sec.

"7501. Definitions.

"7502. Audit requirements; exemptions.

"7503. Relation to other audit requirements.

"7504. Federal agency responsibilities and relations with non-Federal entities.

"7505. Regulations.

"7506. Monitoring responsibilities of the Comptroller General.

"7507. Effective date.

1 **“§ 7501. Definitions**

2 “(a) As used in this chapter, the term—

3 “(1) ‘Comptroller General’ means the Comptrol-  
4 ler General of the United States;

5 “(2) ‘Director’ means the Director of the Office  
6 of Management and Budget;

7 “(3) ‘Federal agency’ has the same meaning as  
8 the term ‘agency’ in section 551(1) of title 5;

9 “(4) ‘Federal awards’ means Federal financial  
10 assistance and Federal cost-reimbursement contracts  
11 that non-Federal entities receive directly from Fed-  
12 eral awarding agencies or indirectly from pass-  
13 through entities;

14 “(5) ‘Federal financial assistance’ means assist-  
15 ance that non-Federal entities receive or administer  
16 in the form of grants, loans, loan guarantees, prop-  
17 erty, cooperative agreements, interest subsidies, in-  
18 surance, donated surplus property, food commod-  
19 ities, direct appropriations, or other assistance, but  
20 does not include amounts received as reimbursement  
21 for services rendered to individuals in accordance  
22 with guidance issued by the Director;

23 “(6) ‘Federal program’ means all Federal  
24 awards to a non-Federal entity assigned a single  
25 number in the Catalog of Federal Domestic Assist-

1       ance or encompassed in a group of numbers or other  
2       category as defined by the Director;

3       “(7) ‘generally accepted government auditing  
4       standards’ means the government auditing stand-  
5       ards issued by the Comptroller General;

6       “(8) ‘independent auditor’ means—

7               “(A) an external State or local government  
8       auditor who meets the independence standards  
9       included in generally accepted government au-  
10      diting standards; or

11              “(B) a public accountant who meets such  
12      independence standards;

13       “(9) ‘Indian tribe’ means any Indian tribe,  
14      band, nation, or other organized group or commu-  
15      nity, including any Alaskan Native village or re-  
16      gional or village corporation (as defined in, or estab-  
17      lished under, the Alaskan Native Claims Settlement  
18      Act) that is recognized by the United States as eligi-  
19      ble for the special programs and services provided by  
20      the United States to Indians because of their status  
21      as Indians;

22       “(10) ‘internal controls’ means a process, ef-  
23      fected by an entity’s management and other person-  
24      nel, designed to provide reasonable assurance re-

1       garding the achievement of objectives in the follow-  
2       ing categories:

3               “(A) Effectiveness and efficiency of oper-  
4       ations.

5               “(B) Reliability of financial reporting.

6               “(C) Compliance with applicable laws and  
7       regulations;

8               “(11) ‘local government’ means any unit of  
9       local government within a State, including a county,  
10      borough, municipality, city, town, township, parish,  
11      local public authority, special district, school district,  
12      intrastate district, council of governments, any other  
13      instrumentality of local government and, in accord-  
14      ance with guidelines issued by the Director, a group  
15      of local governments;

16              “(12) ‘major program’ means a Federal pro-  
17      gram identified in accordance with risk-based cri-  
18      teria prescribed by the Director under this chapter,  
19      subject to the limitations described under subsection  
20      (b);

21              “(13) ‘non-Federal entity’ means a State, local  
22      government, or nonprofit organization;

23              “(14) ‘nonprofit organization’ means any cor-  
24      poration, trust, association, cooperative, or other or-  
25      ganization that—

1           “(A) is operated primarily for scientific,  
2           educational, service, charitable, or similar pur-  
3           poses in the public interest;

4           “(B) is not organized primarily for profit;  
5           and

6           “(C) uses net proceeds to maintain, im-  
7           prove, or expand the operations of the organiza-  
8           tion;

9           “(15) ‘pass-through entity’ means a non-Fed-  
10          eral entity that provides Federal awards to a sub-  
11          recipient to carry out a Federal program;

12          “(16) ‘program-specific audit’ means an audit  
13          of one Federal program;

14          “(17) ‘recipient’ means a non-Federal entity  
15          that receives awards directly from a Federal agency  
16          to carry out a Federal program;

17          “(18) ‘single audit’ means an audit, as de-  
18          scribed under section 7502(d), of a non-Federal en-  
19          tity that includes the entity’s financial statements  
20          and Federal awards;

21          “(19) ‘State’ means any State of the United  
22          States, the District of Columbia, the Commonwealth  
23          of Puerto Rico, the Virgin Islands, Guam, American  
24          Samoa, the Commonwealth of the Northern Mariana  
25          Islands, and the Trust Territory of the Pacific Is-

1 lands, any instrumentality thereof, any multi-State,  
2 regional, or interstate entity which has governmental  
3 functions, and any Indian tribe; and

4 “(20) ‘subrecipient’ means a non-Federal entity  
5 that receives Federal awards through another non-  
6 Federal entity to carry out a Federal program, but  
7 does not include an individual who receives financial  
8 assistance through such awards.

9 “(b) In prescribing risk-based program selection cri-  
10 teria for major programs, the Director shall not require  
11 more programs to be identified as major for a particular  
12 non-Federal entity, except as prescribed under subsection  
13 (c) or as provided under subsection (d), than would be  
14 identified if the major programs were defined as any pro-  
15 gram for which total expenditures of Federal awards by  
16 the non-Federal entity during the applicable year exceed—

17 “(1) the larger of \$30,000,000 or 0.15 percent  
18 of the non-Federal entity’s total Federal expendi-  
19 tures, in the case of a non-Federal entity for which  
20 such total expenditures for all programs exceed  
21 \$10,000,000,000;

22 “(2) the larger of \$3,000,000, or 0.30 percent  
23 of the non-Federal entity’s total Federal expendi-  
24 tures, in the case of a non-Federal entity for which  
25 such total expenditures for all programs exceed

1       \$100,000,000 but are less than or equal to  
2       \$10,000,000,000; or

3           “(3) the larger of \$300,000, or 3 percent of  
4       such total Federal expenditures for all programs, in  
5       the case of a non-Federal entity for which such total  
6       expenditures for all programs equal or exceed  
7       \$300,000 but are less than or equal to  
8       \$100,000,000.

9       “(c) When the total expenditures of a non-Federal  
10      entity’s major programs are less than 50 percent of the  
11      non-Federal entity’s total expenditures of all Federal  
12      awards (or such lower percentage as specified by the Di-  
13      rector), the auditor shall select and test additional pro-  
14      grams as major programs as necessary to achieve audit  
15      coverage of at least 50 percent of Federal expenditures  
16      by the non-Federal entity (or such lower percentage as  
17      specified by the Director), in accordance with guidance is-  
18      sued by the Director.

19       “(d) Loan or loan guarantee programs, as specified  
20      by the Director, shall not be subject to the application of  
21      subsection (b).

22      **“§ 7502. Audit requirements; exemptions**

23       “(a)(1)(A) Each non-Federal entity that expends a  
24      total amount of Federal awards equal to or in excess of  
25      \$300,000 or such other amount specified by the Director

1 under subsection (a)(3) in any fiscal year of such non-  
2 Federal entity shall have either a single audit or a pro-  
3 gram-specific audit made for such fiscal year in accord-  
4 ance with the requirements of this chapter.

5 “(B) Each such non-Federal entity that expends Fed-  
6 eral awards under more than one Federal program shall  
7 undergo a single audit in accordance with the require-  
8 ments of subsections (b) through (i) of this section and  
9 guidance issued by the Director under section 7505.

10 “(C) Each such non-Federal entity that expends  
11 awards under only one Federal program and is not subject  
12 to laws, regulations, or Federal award agreements that re-  
13 quire a financial statement audit of the non-Federal en-  
14 tity, may elect to have a program-specific audit conducted  
15 in accordance with applicable provisions of this section and  
16 guidance issued by the Director under section 7505.

17 “(2)(A) Each non-Federal entity that expends a total  
18 amount of Federal awards of less than \$300,000 or such  
19 other amount specified by the Director under subsection  
20 (a)(3) in any fiscal year of such entity, shall be exempt  
21 for such fiscal year from compliance with—

22 “(i) the audit requirements of this chapter; and

23 “(ii) any applicable requirements concerning fi-  
24 nancial audits contained in Federal statutes and reg-



1       ulations governing programs under which such Fed-  
2       eral awards are provided to that non-Federal entity.

3       “(B) The provisions of subparagraph (A)(ii) of this  
4 paragraph shall not exempt a non-Federal entity from  
5 compliance with any provision of a Federal statute or reg-  
6 ulation that requires such non-Federal entity to maintain  
7 records concerning Federal awards provided to such non-  
8 Federal entity or that permits a Federal agency, pass-  
9 through entity, or the Comptroller General access to such  
10 records.

11       “(3) Every 2 years, the Director shall review the  
12 amount for requiring audits prescribed under paragraph  
13 (1)(A) and may adjust such dollar amount consistent with  
14 the purposes of this chapter, provided the Director does  
15 not make such adjustments below \$300,000.

16       “(b)(1) Except as provided in paragraphs (2) and  
17 (3), audits conducted pursuant to this chapter shall be  
18 conducted annually.

19       “(2) A State or local government that is required by  
20 constitution or statute, in effect on January 1, 1987, to  
21 undergo its audits less frequently than annually, is per-  
22 mitted to undergo its audits pursuant to this chapter bien-  
23 nially. Audits conducted biennially under the provisions of  
24 this paragraph shall cover both years within the biennial  
25 period.

1       “(3) Any nonprofit organization that had biennial au-  
2       dits for all biennial periods ending between July 1, 1992,  
3       and January 1, 1995, is permitted to undergo its audits  
4       pursuant to this chapter biennially. Audits conducted bien-  
5       nially under the provisions of this paragraph shall cover  
6       both years within the biennial period.

7       “(c) Each audit conducted pursuant to subsection (a)  
8       shall be conducted by an independent auditor in accord-  
9       ance with generally accepted government auditing stand-  
10      ards, except that, for the purposes of this chapter, per-  
11      formance audits shall not be required except as authorized  
12      by the Director.

13      “(d) Each single audit conducted pursuant to sub-  
14      section (a) for any fiscal year shall—

15             “(1) cover the operations of the entire non-Fed-  
16      eral entity; or

17             “(2) at the option of such non-Federal entity  
18      such audit shall include a series of audits that cover  
19      departments, agencies, and other organizational  
20      units which expended or otherwise administered  
21      Federal awards during such fiscal year provided that  
22      each such audit shall encompass the financial state-  
23      ments and schedule of expenditures of Federal  
24      awards for each such department, agency, and orga-

1 nizational unit, which shall be considered to be a  
2 non-Federal entity.

3 “(e) The auditor shall—

4 “(1) determine whether the financial statements  
5 are presented fairly in all material respects in con-  
6 formity with generally accepted accounting prin-  
7 ciples;

8 “(2) determine whether the schedule of expendi-  
9 tures of Federal awards is presented fairly in all ma-  
10 terial respects in relation to the financial statements  
11 taken as a whole;

12 “(3) with respect to internal controls pertaining  
13 to the compliance requirements for each major pro-  
14 gram—

15 “(A) obtain an understanding of such in-  
16 ternal controls;

17 “(B) assess control risk; and

18 “(C) perform tests of controls unless the  
19 controls are deemed to be ineffective; and

20 “(4) determine whether the non-Federal entity  
21 has complied with the provisions of laws, regula-  
22 tions, and contracts or grants pertaining to Federal  
23 awards that have a direct and material effect on  
24 each major program.

1       “(f)(1) Each Federal agency which provides Federal  
2 awards to a recipient shall—

3           “(A) provide such recipient the program names  
4 (and any identifying numbers) from which such  
5 awards are derived, and the Federal requirements  
6 which govern the use of such awards and the re-  
7 quirements of this chapter; and

8           “(B) review the audit of a recipient as nec-  
9 essary to determine whether prompt and appropriate  
10 corrective action has been taken with respect to  
11 audit findings, as defined by the Director, pertaining  
12 to Federal awards provided to the recipient by the  
13 Federal agency.

14       “(2) Each pass-through entity shall—

15           “(A) provide such subrecipient the program  
16 names (and any identifying numbers) from which  
17 such assistance is derived, and the Federal require-  
18 ments which govern the use of such awards and the  
19 requirements of this chapter;

20           “(B) monitor the subrecipient’s use of Federal  
21 awards through site visits, limited scope audits, or  
22 other means;

23           “(C) review the audit of a subrecipient as nec-  
24 essary to determine whether prompt and appropriate  
25 corrective action has been taken with respect to

1        audit findings, as defined by the Director, pertaining  
2        to Federal awards provided to the subrecipient by  
3        the pass-through entity; and

4            “(D) require each of its subrecipients of Fed-  
5        eral awards to permit, as a condition of receiving  
6        Federal awards, the independent auditor of the pass-  
7        through entity to have such access to the  
8        subrecipient’s records and financial statements as  
9        may be necessary for the pass-through entity to  
10       comply with this chapter.

11       “(g)(1) The auditor shall report on the results of any  
12       audit conducted pursuant to this section, in accordance  
13       with guidance issued by the Director.

14       “(2) When reporting on any single audit, the auditor  
15       shall include a summary of the auditor’s results regarding  
16       the non-Federal entity’s financial statements, internal  
17       controls, and compliance with laws and regulations.

18       “(h) The non-Federal entity shall transmit the re-  
19       porting package, which shall include the non-Federal enti-  
20       ty’s financial statements, schedule of expenditures of Fed-  
21       eral awards, corrective action plan defined under sub-  
22       section (i), and auditor’s reports developed pursuant to  
23       this section, to a Federal clearinghouse designated by the  
24       Director, and make it available for public inspection within  
25       the earlier of—

1           “(1) 30 days after receipt of the auditor’s re-  
2       port; or

3           “(2)(A) for a transition period of at least 2  
4       years after the effective date of the Single Audit Act  
5       Amendments of 1996, as established by the Direc-  
6       tor, 13 months after the end of the period audited;  
7       or

8           “(B) for fiscal years beginning after the period  
9       specified in subparagraph (A), 9 months after the  
10      end of the period audited, or within a longer time-  
11      frame authorized by the Federal agency, determined  
12      under criteria issued under section 7505, when the  
13      9-month timeframe would place an undue burden on  
14      the non-Federal entity.

15          “(i) If an audit conducted pursuant to this section  
16       discloses any audit findings, as defined by the Director,  
17       including material noncompliance with individual compli-  
18       ance requirements for a major program by, or reportable  
19       conditions in the internal controls of, the non-Federal en-  
20       tity with respect to the matters described in subsection  
21       (e), the non-Federal entity shall submit to Federal officials  
22       designated by the Director, a plan for corrective action  
23       to eliminate such audit findings or reportable conditions  
24       or a statement describing the reasons that corrective ac-  
25       tion is not necessary. Such plan shall be consistent with

1 the audit resolution standard promulgated by the Comp-  
2 troller General (as part of the standards for internal con-  
3 trols in the Federal Government) pursuant to section  
4 3512(e).

5 “(j) The Director may authorize pilot projects to test  
6 alternative methods of achieving the purposes of this chap-  
7 ter. Such pilot projects may begin only after consultation  
8 with the Chair and Ranking Minority Member of the Com-  
9 mittee on Governmental Affairs of the Senate and the  
10 Chair and Ranking Minority Member of the Committee  
11 on Government Reform and Oversight of the House of  
12 Representatives.

13 **“§ 7503. Relation to other audit requirements**

14 “(a) An audit conducted in accordance with this  
15 chapter shall be in lieu of any financial audit of Federal  
16 awards which a non-Federal entity is required to undergo  
17 under any other Federal law or regulation. To the extent  
18 that such audit provides a Federal agency with the infor-  
19 mation it requires to carry out its responsibilities under  
20 Federal law or regulation, a Federal agency shall rely  
21 upon and use that information.

22 “(b) Notwithstanding subsection (a), a Federal agen-  
23 cy may conduct or arrange for additional audits which are  
24 necessary to carry out its responsibilities under Federal  
25 law or regulation. The provisions of this chapter do not

1 authorize any non-Federal entity (or subrecipient thereof)  
2 to constrain, in any manner, such agency from carrying  
3 out or arranging for such additional audits, except that  
4 the Federal agency shall plan such audits to not be dupli-  
5 cative of other audits of Federal awards.

6 “(c) The provisions of this chapter do not limit the  
7 authority of Federal agencies to conduct, or arrange for  
8 the conduct of, audits and evaluations of Federal awards,  
9 nor limit the authority of any Federal agency Inspector  
10 General or other Federal official.

11 “(d) Subsection (a) shall apply to a non-Federal en-  
12 tity which undergoes an audit in accordance with this  
13 chapter even though it is not required by section 7502(a)  
14 to have such an audit.

15 “(e) A Federal agency that provides Federal awards  
16 and conducts or arranges for audits of non-Federal enti-  
17 ties receiving such awards that are in addition to the au-  
18 dits of non-Federal entities conducted pursuant to this  
19 chapter shall, consistent with other applicable law, arrange  
20 for funding the full cost of such additional audits. Any  
21 such additional audits shall be coordinated with the Fed-  
22 eral agency determined under criteria issued under section  
23 7504 to preclude duplication of the audits conducted pur-  
24 suant to this chapter or other additional audits.



1       “(f) Upon request by a Federal agency or the Comp-  
2 troller General, any independent auditor conducting an  
3 audit pursuant to this chapter shall make the auditor’s  
4 working papers available to the Federal agency or the  
5 Comptroller General as part of a quality review, to resolve  
6 audit findings, or to carry out oversight responsibilities  
7 consistent with the purposes of this chapter. Such access  
8 to auditor’s working papers shall include the right to ob-  
9 tain copies.

10 **“§ 7504. Federal agency responsibilities and relations**  
11 **with non-Federal entities**

12       “(a) Each Federal agency shall, in accordance with  
13 guidance issued by the Director under section 7505, with  
14 regard to Federal awards provided by the agency—

15               “(1) monitor non-Federal entity use of Federal  
16 awards, and

17               “(2) assess the quality of audits conducted  
18 under this chapter for audits of entities for which  
19 the agency is the single Federal agency determined  
20 under subsection (b).

21       “(b) Each non-Federal entity shall have a single Fed-  
22 eral agency, determined in accordance with criteria estab-  
23 lished by the Director, to provide the non-Federal entity  
24 with technical assistance and assist with implementation  
25 of this chapter.

1       “(c) The Director shall designate a Federal clearing-  
2 house to—

3               “(1) receive copies of all reporting packages de-  
4 veloped in accordance with this chapter;

5               “(2) identify recipients that expend \$300,000  
6 or more in Federal awards or such other amount  
7 specified by the Director under section 7502(a)(3)  
8 during the recipient’s fiscal year but did not undergo  
9 an audit in accordance with this chapter; and

10              “(3) perform analyses to assist the Director in  
11 carrying out responsibilities under this chapter.

12 **“§ 7505. Regulations**

13       “(a) The Director, after consultation with the Comp-  
14 troller General, and appropriate officials from Federal,  
15 State, and local governments and nonprofit organizations  
16 shall prescribe guidance to implement this chapter. Each  
17 Federal agency shall promulgate such amendments to its  
18 regulations as may be necessary to conform such regula-  
19 tions to the requirements of this chapter and of such guid-  
20 ance.

21       “(b)(1) The guidance prescribed pursuant to sub-  
22 section (a) shall include criteria for determining the appro-  
23 priate charges to Federal awards for the cost of audits.  
24 Such criteria shall prohibit a non-Federal entity from  
25 charging to any Federal awards—

1           “(A) the cost of any audit which is—

2                   “(i) not conducted in accordance with this  
3           chapter; or

4                   “(ii) conducted in accordance with this  
5           chapter when expenditures of Federal awards  
6           are less than amounts cited in section  
7           7502(a)(1)(A) or specified by the Director  
8           under section 7502(a)(3), except that the Direc-  
9           tor may allow the cost of limited scope audits  
10          to monitor subrecipients in accordance with sec-  
11          tion 7502(f)(2)(B); and

12          “(B) more than a reasonably proportionate  
13          share of the cost of any such audit that is conducted  
14          in accordance with this chapter.

15          “(2) The criteria prescribed pursuant to paragraph  
16          (1) shall not, in the absence of documentation demonstrat-  
17          ing a higher actual cost, permit the percentage of the cost  
18          of audits performed pursuant to this chapter charged to  
19          Federal awards, to exceed the ratio of total Federal  
20          awards expended by such non-Federal entity during the  
21          applicable fiscal year or years, to such non-Federal entity’s  
22          total expenditures during such fiscal year or years.

23          “(c) Such guidance shall include such provisions as  
24          may be necessary to ensure that small business concerns  
25          and business concerns owned and controlled by socially

1 and economically disadvantaged individuals will have the  
2 opportunity to participate in the performance of contracts  
3 awarded to fulfill the audit requirements of this chapter.

4 **“§ 7506. Monitoring responsibilities of the Comptrol-**  
5 **ler General**

6 “(a) The Comptroller General shall review provisions  
7 requiring financial audits of non-Federal entities that re-  
8 ceive Federal awards that are contained in bills and reso-  
9 lutions reported by the committees of the Senate and the  
10 House of Representatives.

11 “(b) If the Comptroller General determines that a bill  
12 or resolution contains provisions that are inconsistent with  
13 the requirements of this chapter, the Comptroller General  
14 shall, at the earliest practicable date, notify in writing—

15 “(1) the committee that reported such bill or  
16 resolution; and

17 “(2)(A) the Committee on Governmental Af-  
18 fairs of the Senate (in the case of a bill or resolution  
19 reported by a committee of the Senate); or

20 “(B) the Committee on Government Reform  
21 and Oversight of the House of Representatives (in  
22 the case of a bill or resolution reported by a commit-  
23 tee of the House of Representatives).

1 **“§ 7507. Effective date**

2        “This chapter shall apply to any non-Federal entity  
3 with respect to any of its fiscal years which begin after  
4 June 30, 1996.”.

5 **SEC. 3. TRANSITIONAL APPLICATION.**

6        Subject to section 7507 of title 31, United States  
7 Code (as amended by section 2 of this Act), the provisions  
8 of chapter 75 of such title (before amendment by section  
9 2 of this Act) shall continue to apply to any State or local  
10 government with respect to any of its fiscal years begin-  
11 ning before July 1, 1996.

○

Mr. HORN. Witnesses at today's hearing include representatives of the General Accounting Office and the National State Auditors Association. We will also hear from the Controller of the Office of Federal Financial Management in the Office of Management and Budget. Since 1984, OMB has been involved in developing guidance for auditors conducting the single audits. Appearing today are Gene L. Dodaro, Assistant Controller General, Accounting and Information Management Division, General Accounting Office; Hon. G. Edward DeSeve, Controller, Office of Federal Financial Management, Office of Management and Budget.

We will next hear from Randy Main, vice president and CFO of the Fred Hutchinson Cancer Research Center, who will provide a nonprofit organization's view of the bill. He represents the Association of Independent Research Institutes. Following Mr. Main are State Auditors Anthony Verdecchia of Maryland and Kurt Sjoberg of California. They are representing both their States and the National State Auditors Association. They will give us the State perspective on the bill.

Finally, we will hear from Ted Sheridan, president of Sheridan Management Corp., representing the Financial Executives Institution.

We thank you all very much for coming and joining us. We look forward to your testimony.

Does the gentleman representing the ranking minority member have an opening statement?

Mr. PETERSON. Thank you, Mr. Chairman. I do. First of all, I appreciate the work that you have done to develop this legislation, and I am pleased to join Mrs. Maloney, subcommittee ranking member, as an original co-sponsor of the Single Audit Act Amendments.

And I am probably one of the few Members of Congress that has actually worked in this area, and has actually had to try to deal with the Single Audit Act and done some of these. So I think the Single Audit Act itself has been a good—served a good purpose. But after more than a decade, it does need some updating.

And I think this bill does a lot of positive things, like including the nonprofit entities under the umbrella. I think raising the threshold and focussing on the risk makes some sense. I think that the way it has been implemented has been somewhat rigid and ends up having people go through the motions sometimes when it is not really necessary. And I think allowing OMB to periodically raise the threshold makes some sense so we can minimize burdens on smaller entities. And I think trying—moving up this deadline so that these reports are somewhat more timely, I think, is a good idea.

But, Mr. Chairman, there is one point that I want to make. Some of my colleagues in the accounting profession have some concerns about one of the provisions in this bill, and I respect the opinions of my colleagues, and I must say I agree with them. They have advised me that they support this bill; however, they do have one reservation regarding section 7503, subsection F. This relates to providing copies of the auditors' working papers to Federal Government representatives.

And notwithstanding this concern, the profession believes that this legislative process and bill should go forward. But I hope—I intend to work with the profession, I hope that we can, to see if there is some way to address the concerns that they have in this area. And I hope that we can resolve this issue to everybody's satisfaction and move the bill forward.

So again, Mr. Chairman, I thank you for introducing the bill and look forward to working with you and Mrs. Maloney and others to move this legislation ahead.

[The prepared statement of Hon. Carolyn Maloney follows:]

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COMMITTEE ON BANKING AND  
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COMMITTEE ON GOVERNMENT  
REFORM AND OVERSIGHT



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**STATEMENT OF THE HON. CAROLYN B. MALONEY  
ON THE SINGLE AUDIT ACT AMENDMENTS OF 1996**

March 29, 1996

Thank you Mr. Chairman, I appreciate your holding this hearing. The Single Audit Act of 1984 addressed a serious problem of accountability. I am pleased to be a cosponsor of the amendments to that Act. Today, more than ever, with 20 percent of the federal budget being passed through to state and local governments, it is important that we have a good accounting of those funds.

In 1960, the federal government gave 7 percent of its funds to state and local governments -- \$7 billion out of a \$100 billion budget. In 1981, when Congress began discussing the single audit concept, the federal budget had grown five-fold, but transfers to state and local governments had grown to \$95 billion -- nearly a 14 fold increase. Today, nearly 20 percent of the federal budget of \$1.5 trillion goes to state and local governments. The Single Audit Act was designed to create a system of accountability for those dollars. Over the last 12 years it has served us well.

The Single Audit Act of 1984 replaced a system of multiple grant-by-grant audits with a single, entity-wide audit of all federal funds. Prior to the Act, there was a myriad of overlapping, inconsistent, and duplicative federal requirements. The Act eliminated this duplication, and provided a set of uniform auditing requirements. At the same time, it improved accountability for billions of dollars, and reduced the paperwork burden on state and local governments.

The experience of the last 12 years has shown a number of places where the legislation can be improved. The Single Audit Act Amendments of 1996 incorporates those changes. The threshold of \$100,000 for auditing state and local governments was carefully selected in 1984 to cover 95 percent of all transfers. Because of inflation, that threshold now covers 99 percent of all transfers. This bill raises that threshold to \$300,000, returning coverage to the 95 percent level. This bill also give the Director of the Office of Management and Budget the authority to adjust the threshold for future inflation.



Currently, institutions of higher education and other non-profit organizations receiving federal funds are audited under the authority of OMB Circular A-133. These amendments will codify the audit requirements for those entities. Once that is done, OMB can issue uniform guidelines for auditing all entities receiving federal funds.

It is important to note that this bill also makes the results of these audits more useful to the officials responsible for overseeing federal funds. The bill calls for more timely reports -- reducing the time from 13 months to 9 -- and reports that emphasize the auditors' conclusions, the quality of internal controls, and the continuing interests of the federal government.

This bill has been negotiated over the last year to address the concerns of a number of interested parties. The success of those negotiations is reflected in the wide support this bill enjoys. In addition to bipartisan sponsorship in the House and Senate, the bill is endorsed by the National State Auditors Association, and the Administration.

The American Institute of Certified Public Accountants also supports this bill. However, they have continuing concerns over a provision relating to auditor's working papers. In spite of this reservation, the AICPA believes that the legislative process should go forward and I commend them for that position. I have discussed this problem with the OMB and believe that it can be resolved to the satisfaction of all parties involved during the implementation of this Act. I will continue to work with the Institute to address their concerns.

Thank you Mr. Chairman for convening this hearing. I look forward to working with you to move this legislation forward in the House.

Mr. HORN. Well, thank you very much. We appreciate your co-sponsorship. Now I yield to the gentleman from Virginia, Mr. Davis, another original co-sponsor.

Mr. DAVIS. No.

Mr. HORN. Very good. The gentleman from Pennsylvania? All right.

We have a tradition in this hearing that all witnesses except Members of Congress are sworn in. If you don't mind, gentlemen, just stand and raise your right hand.

[Witnesses sworn.]

Mr. HORN. The clerk will note that all three witnesses affirmed. And why don't we just start in the order in which they are listed in the agenda. And we will start with Mr. Edward DeSeve, the Controller, Office of Federal Financial Management, Office of Management and Budget.

**STATEMENTS OF G. EDWARD DeSEVE, CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; AND GENE L. DODARO, ASSISTANT COMPTROLLER GENERAL, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY JERRY SKELLY, GENERAL ACCOUNTING OFFICE**

Mr. DESEVE. Thank you very much, Mr. Chairman. First I want to thank you and the committee, because issues such as the Single Audit Act are not glamour issues, yet their importance to Governments and to nonprofits, educational and research institutions is enormous.

The importance to the Federal Government in the sense of being sure of the integrity of the programs, both financial and programmatic integrity, and to the institutions, the nonprofit and educational institutions, the State and local governments, as to the ability to have their audits done in an economic and efficient way. So I really do appreciate the subcommittee taking this matter up.

Over the last 2 years, the Office of Management and Budget, General Accounting Office, and representatives from the President's Council on Integrity and Efficiency have been engaged in an extensive effort to revise the Single Audit Act of 1984. The effort was undertaken in response to reports issued by GAO and the PCIE recommending numerous changes culminated in legislation as 1579, the Single Audit Act of 1996, introduced in the Senate on February 27, 1996.

Amendments to the act were coordinated extensively with the National Association of State Auditors and the American Institute of Certified Public Accountants. The two organizations whose constituency performed the audits under the act and implementing OMB circular.

The principal amendments I would like to discuss with you today pertain to extending the law to cover not only State and local governments but also educational institutions and other nonprofit organizations, increasing the dollar threshold that triggers the requirement for an audit under the act, using risk rather than program size to determine which Federal programs must be audited, authorizing the Director of the Office of Management and Budget

to expand the audit requirement to provide for an assessment of program performance, strengthening reporting requirements by requiring a summary of audit findings in an overall summary of audit results, improving the timeliness of report submission by shortening the due date from 13 to 9 months, and providing the Director of OMB with the authority to make necessary revisions to audit requirements to ensure the continued effectiveness of the audit.

A bit of background is in order to put the need for the existing act into perspective. Management policies for Federal funds at the State and local level, as well as in educational institutions and nonprofits, were prescribed by various circulars of OMB and implementing regulations issued by the Federal Government. These policies pertain to such matters as financial management systems, procurement under Federal awards, and periodic reporting to Federal awarding agencies, to name a few. In addition, Federal programs are subject to requirements imposed by program legislation.

Prior to the passage of the Single Audit Act in 1984, Federal practices for monitoring the use and award of Federal funds, which today cover over \$200 billion, were ineffective. Most agencies did little to audit the use and management of these funds. The audits were not coordinated with other agencies, and of equal importance, they were not conducted in a context of the annual audit of the entity. The result: ineffective and inefficient audits.

In response, Congress passed the Single Audit Act in 1984. The act's purpose was to improve the management of Federal funds at the local level, as well as improve the Federal audit process. To achieve this purpose, the act required that audits of Federal agencies be conducted at least biennially, and that such audits be performed in conjunction with the audit of an agency's financial statements.

Several years of experience with the single audits of State and local governments demonstrated the efficacy of the single audit concept. In response, OMB extended this concept to nongovernmental, nonprofit organizations, including universities, through its issuance of circular A-133, Audits of Institutions of Higher Education and Other Nonprofits in 1990.

We have learned a lot since the passage of the act and implementation of circular A-133. First the act was too prescriptive. While it assigned responsibility for issuing implementing regulations or guidance to OMB, it provided little if any discretion for making changes to accommodate problems encountered with implementation or to ensure continued effectiveness.

With respect to circular A-133, some Federal agencies resisted implementation, primarily those that had program-specific audits and did not want to alter this approach. This limited the effectiveness of the single audit process and imposed unnecessary burdens on the non-Federal community. Full implementation was, however, achieved.

The reports of the GAO and PCIE cited earlier provide a great deal of information which has been used in developing the amendments we want to discuss with you today. The reports' contents were similar. While these reports addressed the effectiveness of the

1984 act, we believe the findings are equally relevant to the non-profit community.

The first changes we believe should receive favorable consideration is the extension of the law to the nonprofit community. The principal purpose of this change is to ensure consistent audit treatment of all Federal grantees. We have discussed this with the non-profit community and they fully support the change.

The second change is the proposal to increase the monetary threshold of Federal assistance that triggers the requirement for an audit under the act to \$300,000. The amendment also requires the Director of OMB to reassess this threshold periodically and provides authority for increasing it if conditions warrant.

Currently, an entity receiving \$25,000 or more in Federal awards must have an audit of associated programs. An entity receiving over \$100,000 in awards must have an organization-wide audit. While these requirements may have been appropriate, it has been estimated that less than 5 percent of Federal assistance dollars goes to entities which receive less than \$300,000.

Another change recommended by GAO and PCIE involves moving from selecting programs for audit, based on size in monetary terms, to a risk selection process. This is because the act requires that programs over a certain dollar amount be tested now regardless of risk. We believe that risk rather than size provides a more important and more flexible way of thinking about examining these programs.

The next item is the audit of program performance. In addition to financial audits, we believe that the act should be amended to allow program performance to be an important criteria in examining the activities, both of State and local governments as well as of nonprofits.

The timing and content of the report is another extremely important element. Right now, reports are submitted as late as 13 months after the reporting period. This minimizes their usefulness to the reporting entity as well as to Federal officials. Accordingly, the proposed amendments require that reports be submitted within 30 days after the completion of the audit or within 9 months after the end of the reporting period.

The foregoing amendments will strengthen substantially the non-Federal audit process, while at the same time reduce audit burden and cost. Of equal importance to these amendments are those that enable the Director of OMB to make necessary revisions to ensure the continued effectiveness of the single audit process without further amendment to the act. The flexibility provisions are designed to protect the non-Federal community from the imposition of burdensome audits without congressional action.

That concludes my remarks and I would be happy to answer questions or provide the committee with more information, as necessary.

[The prepared statement of Mr. DeSeve follows:]

**Statement of G. Edward DeSeve**  
**Controller, Office of Management and Budget**  
**Before the Subcommittee on Government Management,**  
**Information, and Technology**  
**Government Reform and Oversight Committee**  
**United States House of Representatives**  
**Regarding the Single Audit Act Amendments of 1996**  
**March 29, 1996**

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**INTRODUCTION**

Over the last two years, the Office of Management and Budget (OMB), General Accounting Office (GAO) and representatives from the President's Council on Integrity and Efficiency (PCIE) have been engaged in an extensive effort to revise the Single Audit Act of 1984, "Audits of State and Local Governments." This effort was undertaken in response to reports issued by the GAO and PCIE recommending numerous changes to the Act and culminated in legislation (S.1579, Single Audit Act Amendments of 1996) introduced in the Senate on February 27, 1996.

These amendments to the Act were coordinated extensively with the National State Auditors' Association and the American Institute of Certified Public Accountants,

the two organizations whose constituency performs the audits under the Act and implementing OMB circular. The principal amendments that I would like to discuss with you today pertain to:

- Extending the law to cover not only State and local governments but also educational institutions and other non-profit organizations.
- Increasing the dollar threshold that triggers the requirement for an audit under the Act.
- Using risk rather than program size to determine which Federal programs must be audited.
- Authorizing the Director of OMB to expand the audit requirements to provide for an assessment of program performance.
- Strengthening reporting by requiring a summary of audit findings and an overall summary of audit results.
- Improving the timeliness of report submission by shortening the report due-date from 13 to nine months.
- Providing the Director of OMB with authority to make necessary revisions to the audit requirements to ensure continued effectiveness of the audit process.

## BACKGROUND

A bit of background is in order to put the need for the existing Act into perspective. Management policies for Federal funds at the State and local level, as well in the educational and non-profit communities, are prescribed by (1) various circulars issued by the Office of Management and Budget and (2) implementing regulations issued by Federal agencies. These policies pertain to matters such as financial management systems, procurement under Federal awards, and periodic reporting to Federal awarding agencies, to name a few. In addition, Federal programs are subject to requirements imposed by program legislation.

However, prior to passage of the Act in 1984, Federal practices for monitoring the use and management of Federal awards, which today total over \$200 billion, were ineffective. Most Federal agencies did little to audit the use and management of Federal funds. These audits were not coordinated with other agencies, and, of equal importance, they were not conducted in the context of the annual audit of the entity. The result: ineffective and inefficient audits. In response, Congress passed the 1984 Act.

The Act's stated purpose was to improve the management of Federal funds at State and local governments, as well as the Federal audit process. To achieve this purpose, the Act required that audits of Federal awards be conducted at least biennially and that such audits be performed in conjunction with the audit of an organization's financial statements.

Several years of experience with Single Audits of State and local governments demonstrated the efficacy of the Single Audit concept. In response, OMB extended this concept to non-governmental, non-profit organizations -- including universities -- through its issuance of Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Institutions," in 1990.

## **PROPOSED AMENDMENTS**

We have learned a lot since the passage of the Act and implementation of Circular A-133. First, the Act was too prescriptive. While it assigned responsibility for issuing implementing regulations or guidance to OMB, it provided little, if any, discretion for making changes to accommodate problems encountered with implementation or to ensure continued effectiveness. With respect to Circular A-133,



some Federal agencies resisted implementation, primarily those that had performed program-specific audits and did not want to alter this approach. This limited the effectiveness of the Single Audit process and imposed unnecessary burden on the non-Federal community. Full implementation was, however, achieved.

The reports of the GAO and PCIE provide a great deal of information which has been used in developing the amendments that we want to discuss with you today. These reports are similar in content. While these reports address the effectiveness of the 1984 Act, we believe the findings are equally relevant to the non-profit community and that the recommendations should be extended not only to audits of State and local governments but also to the non-profit community. Accordingly, our comments view these reports in this broader context.

**Extend Law to Non-Profit Community.** The first change that we believe should receive favorable consideration is the extension of the law to the non-profit community. The principal purpose of this change is to ensure consistent audit treatment of all Federal grantees. We have discussed this with the non-profit community and they fully support this change.

**Increase Monetary Threshold.** The second important change is the proposal to increase the monetary threshold of Federal assistance that triggers the requirements for an audit under the Act to \$300,000. The amendment also requires the Director of OMB to reassess this threshold periodically and provides the authority for increasing it if conditions warrant. Currently, an entity receiving \$25,000 or more in Federal awards must have an audit of the associated program or programs. An entity receiving over \$100,000 in Federal awards must have an organization-wide audit, which includes an audit of its financial statements and Federal awards.

While these requirements may have been appropriate at the time of the Act's passage, experience has shown that the threshold needs to be raised. It has been estimated that less than five percent of Federal assistance dollars goes to entities that receive less than \$300,000 in total Federal program funding. Audits of these small entities consume millions of dollars at the expense of program beneficiaries. Most of this funding comes through State or local government entities that receive large sums under these programs and must monitor the use and management of Federal funds by these entities, as a condition of receipt. The proposed revisions continue this monitoring requirement and require auditors to assess compliance with the requirement as part of the Single Audit. Accordingly, we believe this change will substantially

reduce burden and costs without sacrificing accountability, while at the same time freeing Federal dollars for program delivery.

**Risk-Based Approach.** Another change recommended by the GAO and PCIE involves moving from selecting programs for audit based on size in monetary terms to a risk-based selection criteria. Audits over the past decade have tended to be repetitive in terms of the particular programs selected for testing. This is because the Act requires programs over a certain dollar amount to be tested regardless of risk, while excluding programs below the threshold from audit consideration. This requirement has improved the management of those programs that are audited -- a conclusion based on the reduction in adverse audit findings related to covered programs over the decade. However, we need a more flexible audit approach, one that gives appropriate consideration to *risk*, as well as size.

With that in mind, the proposed legislation provides authority for a risk-based audit approach and requires OMB to define risk criteria, which, if met, will cause a program to be audited. This flexibility continues to recognize the importance of continuous coverage of larger Federal programs by requiring that those programs comprising 50 percent of total Federal expenditures at an entity be covered by the

Single Audit. This change should improve the Single Audit process substantially.

**Audit Program Performance.** To further improve the effectiveness of the Single Audit, the proposed amendments provide the Director of OMB with authority to expand the audit requirements to provide for an assessment of program performance. Currently, the Act limits the Single Audit to financial and compliance audits. Given that a large number of very important programs are administered by the non-Federal community, it is important that we have the authority to assess program effectiveness in accordance with stated criteria as part of the audit process.

Several States have expressed an interest in having this as part of the amended Act. These States have been at the forefront of the Single Audit process to date. They see the need for the process to evolve from focusing on program *management* to program *performance* -- the idea being that program performance is equally as important as compliance with laws and regulations and other managerial functions. Accordingly, we believe the amended Act should enable OMB to extend the Single Audit process to program performance at the appropriate time.

**Report Content and Timing.** Another area of change pertains to report content and timing. Single Audit documents include financial statements and multiple audit reports that address (1) the fairness of an entity's financial statements, (2) the auditor's understanding of an entity's internal controls, (3) the results of an the auditor's testing of internal controls, (4) the results of the auditor's tests of compliance with Federal laws and regulations, and (5) findings. The multiplicity of reports has resulted in documents that are difficult to understand. Federal officials and entity management have difficulty using these documents for the intended purpose. The proposed amendments address this problem by requiring summary reporting of findings and of the overall results of the audit.

In addition, the Act permits the submission of the Single Audit report as late as 13 months after the end of the reporting period. This minimizes the usefulness of the report to entity management as well as Federal officials. This timing problem also impedes the Federal Government's ability to complete audits of Federal agencies pursuant to the Government Management Reform Act. The preponderance of Federal funds appropriated to an agency is often expended by non-Federal grantees. Audits of these grantees is an important part of the overall Federal audit process. Accordingly, the proposed amendments require that reports be submitted within 30 days after

completion of the audit or within nine months after the end of the reporting period.

**OMB Director's Revisions.** The foregoing amendments will strengthen substantially the non-Federal audit process, while at the same time reduce audit burden and costs. Of equal importance are those amendments that enable the Director of OMB to make revisions necessary to ensure the continued effectiveness of the Single Audit process without further amendments to the Act. The flexibility provisions are designed, however, to protect the non-Federal community from the imposition of burdensome audit requirements without Congressional action.

This concludes my remarks. I would be happy to answer questions or provide the Committee with more information, as needed.

Mr. HORN. Thank you very much. We will now call on Mr. Dodaro, Assistant Comptroller General, for his testimony, and you might identify who is with you.

Mr. DODARO. Good morning, Mr. Chairman. Thank you. Good morning, Congressman Davis.

My colleague along with me today is Mr. Jerry Skelly. Jerry is our single audit expert at GAO. He has been following these issues for a number of years. We are very pleased to be here today to testify in support of H.R. 3184.

Over the past 12 years the Single Audit Act has contributed greatly to improved financial management practices at the State and local level. Along with initiatives that have been started at the State and local level, this act has been a catalyst for producing some fundamental reforms, such as the regular preparation and audit of financial statements, strengthened internal controls and compliance with laws and regulations, and the installation of better accounting and monitoring systems.

I hope someday to come to this committee and report that the progress of our Federal agencies in improving financial management throughout our national Government can parallel the achievements that have been achieved by the State and local level over the past decade.

The Single Audit Act also provides an effective means for monitoring and promoting accountability over Federal assistance to thousands of State and local entities. This is accomplished through a structured approach using a uniform standard to get audit coverage over the approximately \$200 billion that goes from the Federal Government to the State and local governments to administer critical programs.

As everyone has mentioned so far, we can learn from the implementation of the act and make it an even better success by reducing the burden on the State and local governments as well as enhancing the usefulness of the reports.

And the bill does this through several means. One, it raises the threshold, which helps reduce the burden. Raising it to \$300,000 also ensures that we will still get audit coverage over 95 percent of all Federal funds flowing to the State and local level.

In addition, the entities that are not required to have an audit will still be required to maintain accurate records and reports and could be subject to regular monitoring. So we think that provides adequate safeguards.

Second, we can get the reports out faster. As Ed mentioned, it takes up to 13 months in some cases now to get the reports in and even longer in other situations. We have a situation now where about 40 percent of the State and local governments get the reports in or earlier. So we have a great deal already earlier reporting.

Reducing the timeframe would provide a good impetus for the rest of the State and local governments and nonprofits to get the reports in faster and put them in the hands of program managers that can act on them as necessary.

Also, the proposed amendments would make the reports simpler by requiring a summary. That would eliminate the need for program managers to wade through multiple reports and try to ferret out what some of the more significant findings are in those reports.

We think this is a very good improvement and it will help enhance the usefulness of the reports.

Also, going to the risk-based audit approach and giving discretion to OMB and the auditors is good, we are very supportive of that. We think that makes sense. We are still going to have coverage of the big dollar programs. But we will allow a lot more discretion for targeted areas that need particular coverage.

Also, the provisions about putting the nonprofit organizations on a par with the State and local governments, we think is a very good change that needs to be made. It is a good signal to send to the State and local governments and nonprofits that the Federal Government can speak with one voice as to what adequate accountability should be over the Federal funds, and we have simplified and streamlined the process as well.

Also, we are in favor of the amendments that would enhance the purpose of the Single Audit Act to build upon the audits that are done by allowing access to work papers and make copies of those work papers by other auditors.

So we think collectively the set of amendments that are contained in H.R. 3184 will make a good process even better. It will basically enhance the ability of the Federal Government to continue to provide effective oversight over the process. I think the Single Audit Act has been a success story.

And the fact that we have been able to achieve these improvements at the State and local level has really been a remarkable achievement over the past few years, and it is due to the hard work of many people, particularly a lot of hard working and dedicated State and local officials across the country. And they deserve the lion's share of the credit for making these improvements.

We commend the committee for considering these amendments. They enjoy wide support among the Federal and State audit community and many other interested parties. We fully support enactment of the amendments and we will work with the committee in any way possible to secure final passage.

Thank you, Mr. Chairman. We will be pleased to answer any questions.

[The prepared statement of Mr. Dodaro follows:]



Statement of Gene L. Dodaro  
Assistant Comptroller General  
Accounting and Information Management Division

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss proposed amendments to the Single Audit Act of 1984. The single audit is an important means by which the Congress, federal oversight officials, and program managers obtain information on whether the recipients of federal assistance properly account for the federal funds they receive, maintain adequate internal controls over those funds, and comply with program requirements. The single audit, which has gained widespread acceptance throughout the country, has helped foster fundamental financial management improvements and strengthened accountability at state and local governments and nonprofit organizations receiving federal assistance.

The 12 years of experience with the Single Audit Act have shown that refinements can be made to strengthen the usefulness of single audits while at the same time reducing the burden on state and local governments and nonprofit organizations.<sup>1</sup> The proposed amendments, which we strongly support, address these refinements. Today, I would like to provide some perspective on the importance of the Single Audit Act, highlight the results of our most recent assessment of the act's implementation which recommended ways to improve the single audit process,<sup>2</sup> and address the specific amendments that are now being considered.

#### PERSPECTIVES ON WHY THE SINGLE AUDIT ACT WAS ENACTED

During the 1970s, the poor accounting practices of state and local governments put into question the security of federal funds provided to those governments. The 1975 New York City financial crisis focused increased attention on this problem. It was found that New York City consistently overestimated its revenues, underestimated its expenses, never knew how much cash it had on hand, and borrowed repeatedly to finance its deficit spending. Compounding the poor accountability practices prevalent at that time, for the most part, state and local governments were not receiving independent financial statement audits.

In the early 1980s, the Congress became increasingly concerned about a basic lack of accountability for federal assistance provided to state and local governments. The assistance grew from 132 programs costing \$7 billion in 1960 to over 500 programs costing nearly \$95 billion by 1981. In 1984, when the Single Audit Act was signed into law, federal assistance to state and local governments had risen to \$97 billion, more than doubling what it was a decade before.

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<sup>1</sup>Nonprofit organizations are not covered by the Single Audit Act but have single audits pursuant to OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Organizations."

<sup>2</sup>Single Audit: Refinements Can Improve Usefulness (GAO/AIMD-94-133, June 21, 1994).

Before passage of the act, the federal government relied on audits of individual grants to help gain assurance that state and local governments and nonprofit organizations were properly spending federal assistance. These audits focused on whether the transactions of specific grants complied with their program requirements. The audits usually did not address financial controls and were, therefore, unlikely to find systemic problems with an entity's management of its funds. Further, grant audits were conducted on a haphazard schedule, which resulted in large portions of federal funds being unaudited each year. The auditors conducting grant audits did not coordinate their work with the auditors of other programs. As a result, some entities were subject to numerous grant audits each year while others were not audited for long periods.<sup>3</sup>

As a solution, the concept of the single audit was created to replace multiple grant audits with one audit of an entity as a whole. Rather than being a detailed review of individual grants or programs, the single audit is an organizationwide audit that focuses on accounting and administrative controls. The single audit was meant to advise federal oversight officials and program managers on whether an entity's financial statements are fairly presented and to provide reasonable assurance that federal assistance programs are managed in accordance with applicable laws and regulations. At the time the Single Audit Act was enacted, it received strong bi-partisan support in the Congress and from state and local governments.

The objectives of the Single Audit Act are to

- improve the financial management of state and local governments receiving federal financial assistance;
- establish uniform requirements for audits of federal financial assistance provided to state and local governments;
- promote the efficient and effective use of audit resources; and
- ensure that federal departments and agencies, to the extent practicable, rely upon and use audit work done pursuant to the act.

The act requires each state and local entity that receives \$100,000 or more in federal financial assistance (either directly from a federal agency or indirectly through another state or local entity) in any fiscal year to undergo a comprehensive, single audit of its financial operations. The audit must be conducted by an independent auditor on an

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<sup>3</sup>For more information on problems with grant audits, see GAO report, Grant Auditing: A Maze of Inconsistency, Gaps, and Duplication That Needs Overhauling (FGMSD-79-37, June 16, 1979).

annual basis, except under specific circumstances where a biennial audit is allowed.<sup>4</sup> The act also requires entities receiving between \$25,000 and \$100,000 in federal financial assistance to have either a single audit or a financial audit required by the programs that provided the federal funds.<sup>5</sup>

Further, where state and local entities provide \$25,000 or more in federal financial assistance to other organizations ("subrecipients" of federal funds) they are required by the act to monitor those subrecipients' use of the funds. This monitoring can consist of reviewing the results of each subrecipient's audit and ensuring that corrective action is taken on instances of material noncompliance with applicable laws and regulations.

#### THE SINGLE AUDIT HAS CONTRIBUTED GREATLY TO BETTER FINANCIAL MANAGEMENT

Over the past 12 years, single audits have clearly proved their worth as important accountability tools over the hundreds of billions of dollars that the federal government provides to state and local governments and nonprofit organizations each year. As discussed in our June 1994 report, the Single Audit Act has encouraged recipients of federal funds to review and revise their financial management practices. This has resulted in the state and local governments institutionalizing fundamental reforms, such as (1) preparing annual financial statements in accordance with generally accepted accounting principles, (2) obtaining annual independent comprehensive audits, (3) strengthening internal controls over federal funds and compliance with laws and regulations, (4) installing new accounting systems or enhancing old ones, (5) implementing subrecipient monitoring systems that have greatly improved oversight of entities to whom they have distributed federal funds, (6) improving systems for tracking federal funds, and (7) resolving audit findings.

The single audit process has proven to be an effective way of promoting accountability over federal assistance because it provides a structured approach to achieve audit coverage over the thousands of state and local governments and nonprofit organizations that receive federal assistance. Moreover, particularly in the case of block grants—where the federal financial role diminishes and management and outcomes of federal assistance

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<sup>4</sup>Entities may arrange for biennial single audits if, when the Single Audit Act was enacted, they were required by constitution or statute then in effect to conduct their audits less frequently than annually. They may also arrange for biennial single audits if the requirement for such less frequent audits was administrative at the time the act was enacted and was codified by January 1, 1987. In either case, audits conducted biennially are to cover both years within the audit period.

<sup>5</sup>State and local entities receiving less than \$25,000 in federal funds in any fiscal year are not required to have a financial audit.

programs depend heavily on the overall state or local government controls--the single audit process provides accountability by focusing the auditor on the controls affecting the integrated federal and state funding streams.

At the same time, areas of improvement in the single audit process have been identified through the thousands of single audits conducted annually and a consensus has been developed on the needed solutions. I would now like to highlight these areas and strongly support the proposed amendments you are considering which would strengthen the single audit process. Last December we testified before the Senate Governmental Affairs Committee<sup>6</sup> in support of changing the Single Audit Act. Those changes are reflected in S.1579, the Single Audit Act Amendments of 1996--a bill which is identical to the amendments you are now considering. Today, I will focus on the two main areas of improvement:

- ensuring adequate coverage of federal funds without placing an undue administrative burden on entities receiving smaller amounts of federal funds; and
- making single audits more useful to the federal government.

#### **ENSURING ADEQUATE AUDIT COVERAGE WHILE REDUCING BURDEN**

The criteria for determining which entities are to be audited is based solely on dollar amounts, which have not changed since the Act's passage in 1984. The initial dollar thresholds were designed to ensure adequate audit coverage of federal funds without placing an undue administrative burden on entities receiving smaller amounts of federal assistance. In 1984, the dollar threshold criteria for entities ensured audit coverage for 95 percent of all direct federal assistance to local governments. Today, the same criteria cover 99 percent of all federal assistance to local governments. As a result, some local governments that receive comparatively small amounts of federal assistance are required to have financial audits.

If the thresholds were raised, as is proposed in the amendments, audit coverage of 95 percent of federal funds to local governments could be maintained while roughly 4,000 local governments that now have single audits would be exempt in the future. More than 80 percent of the federal program managers we interviewed in preparing our 1994 report favored raising the thresholds to at least the levels proposed in the amendments. We strongly support the proposed change and believe it strikes the proper balance between cost-effective accountability and risk.

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<sup>6</sup>**Financial Management: Continued Momentum Essential To Achieve CFO Act Goals** (GAO/T-AIMD-96-10, December 14, 1995).

Entities that fall below the audit threshold would still be required to maintain and provide access to records of the use of federal assistance. Also, those entities would continue to be subject to monitoring activities which could be accomplished through site visits, limited scope audits, or other means. Further, federal agencies could conduct or arrange for audits of the entities.

The act's current criteria for selecting programs to be covered as part of a single audit focuses solely on dollars expended and does not consider all risk factors. In our 1994 report, we noted that less than 20 percent of the programs in our sample met the selection criteria regardless of whether they would be considered high risk. However, those few programs provided 90 percent of the entities' federal expenditures. At the same time, programs that could be considered risky because of their complexities, changed program requirements, or previously identified problems would not have to be covered. The proposed amendments would require OMB to develop a risk-based approach to target audit resources at the higher risk programs as well as focusing on the dollars expended. We strongly support this change and note that the overwhelming majority of federal managers we interviewed agreed with this proposal.

#### ENHANCING THE USEFULNESS OF SINGLE AUDITS

The proposed amendments include two primary changes to enhance the content and timeliness of single audit reports.

First, single audit reports contain a series of as many as seven or more separate reports, and significant information is scattered throughout the separate reports. Presently, there is no requirement for a summary although several state auditors (for example, California's state auditor) prepare summary reports.

In this regard, as discussed in our 1994 report, 95 percent of the federal program managers we interviewed were very supportive of summary reports. Managers said that a summary report would save them time and enable them to more quickly focus on the most important problems the auditors found. The proposed amendments address this need by requiring auditors to provide a summary of their determinations concerning the audited entity's financial statements, internal controls, and compliance with federal laws and regulations. We support their enactment.

Second, entities now have 13 months from the end of the fiscal year to submit their single audit reports to the federal government. The proposed amendments would shorten this to 9 months. The amendments would require OMB to establish a transition period of at least 2 years for entities to comply with the shorter time frame. After the transition period, federal agencies could authorize an entity to report later than 9 months, consistent with criteria issued by OMB. We strongly support these provisions. Of the officials we surveyed, 84 percent of the federal program managers and 64 percent of the state program managers believe the 13-month time frame is excessive. Moreover, in fiscal year

1991, 44 percent of state and local governments were able to submit their reports within 9 months after the end of their fiscal years. Over time, I hope that it will be the rule, rather than the exception, for the audit reports to be submitted in less than 9 months.

#### ADDITIONAL PROVISIONS

The proposed amendments would also expand the Single Audit Act to include nonprofit organizations, thereby placing all entities receiving federal funds under the same ground rules. Presently, the Single Audit Act applies only to state and local governments while nonprofit organizations are administratively required to have single audits under OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Organizations." OMB is in the final stages of revising Circular A-133 to parallel the requirements of the proposed amendments to the Single Audit Act. The proposed amendments would provide a statutory basis for consistent, common requirements for state and local governments and nonprofit organizations. We strongly support this change.

The proposed amendments would also reinforce one of the goals of the act to use single audits as the foundation for other audits. Combined with summary reporting, the ability of federal agencies to review single audit working papers, and make necessary copies, can provide valuable information in their oversight of federal assistance programs.

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In closing, a number of organizations have worked for some time in gaining consensus on how to make the single audit process as efficient and effective as possible. The proposed amendments you are now considering represent that consensus and have broad support among stakeholder groups, including the National State Auditors Association and the President's Council on Integrity & Efficiency which represents the federal inspectors general. The Single Audit Act has been very successful. The amendments build on that success based on lessons learned and changed conditions over the past 12 years. We encourage the enactment of the proposed amendments and commend the Subcommittee for focusing on this important issue. Mr. Chairman, we would be pleased to work with the Subcommittee as it considers the amendments to the Single Audit Act. I would be happy to answer any questions that you or members may have at this time.

Mr. HORN. Well, we appreciate that. I now yield to the gentleman from Minnesota, or did he disappear? He disappeared. OK. Let me ask you a few questions.

In your written testimony you state that rather than being a detailed review of individual grants or programs, a single audit is an organization-wide audit that focuses on accounting and administrative controls. I'm curious. What does focusing on accounting and administrative controls involve? And how does it give program managers assurance that their programs are being audited? Either one of you can handle that.

Mr. DODARO. I'll take that one first. I think basically one of the issues that we had difficulty with the prior process before the State audit—the Single Audit Act was put in place was the fact that we had a lot of individual grant program. What the single audit requires is an organization-wide study.

As you know, many of the Federal programs are combined with State and local funding to deliver the actual program activity. So an audit that covers the entire entity's operations and ensures there are good internal controls in place for financial reporting purposes, and also ensuring such things as proper eligibility determinations, proper control over the assets, that those funds are being secured on behalf of the Federal Government, is a good foundation to put in place and gives to the Federal Government a lot of assurance that the entity has the proper controls in place.

In addition, that is supplemented with particular compliance testing for key programs that the Federal Government is interested in. So the combination of having good sound financial management practices in the entity to give the Federal Government assurance, along with the selective compliance testing, we think is a good way to go about it in an efficient way.

Mr. DESEVE. The other side of that, historically, if you go back—I was a local official before the act came into play in 1984—it was often in any particular entity that you had two or three different Federal auditors looking at what was going on. So if you were in a housing authority, you might have some folks from HUD. If you had a Department of Labor grant, or in those days OEO grants, you might have a HUD auditor, a Department of Labor auditor, an OEO auditor, all looking at the same set of books at the same time.

Now, with an entity approach, especially that tests system and controls, the focus is where it should be: on making sure that there is a prevention aspect as well as a detection aspect.

Mr. HORN. How do you see those assignments being made in terms of who audits what? I mean, will it just be based on who has the largest grant with that agency if they have seven different agencies giving them grants?

Mr. DESEVE. Typically, we use what is called the cognizant agency approach, and we have cognizant agencies who audit and then provide those audit findings to others.

Mr. HORN. Because I am aware of how they determine indirect costs, and often there is a designated agency.

Mr. DESEVE. Right.

Mr. HORN. And that is accepted by everybody else?

Mr. DESEVE. Correct.

Mr. HORN. Is there—talking about the single audit and the relation to one of our favorite acts, is there a relationship between the Single Audit Act and the Government Management Reform Act of 1994?

Mr. DESEVE. There absolutely is, and I am going to let Gene—because we have been discussing this with agencies, particularly HHS and others. I will let Gene talk about that relationship.

Mr. DODARO. There is clearly a direct relationship and actually we are very pleased to have the single audit foundation in place for good auditing at the State and local level. As we have discussed this morning, you have several hundred billion dollars that are being passed through to the Federal Government down to the State and local entities. And in order to provide the audit assistance that is required under the Chief Financial Officers Act, we will have to build upon, and rely upon, the work that is done at the State and local level.

And as we have discussed before, Mr. Chairman, we have our hands full with a number of Federal agencies, trying to bring them into compliance with the act. And I'm very pleased that, at least at the State and local level, we have a solid foundation that we can build upon.

So we are going to be working with the State auditors and that process will help us ensure the accountability that is called for under the Chief Financial Officers Act.

Mr. HORN. Has OMB or GAO found that Federal agency reviewers have had problems in getting access to the working papers from the auditor who conducted the single audit? Is there any difficulty there?

Mr. DESEVE. There has been historically difficulties, because of lack of clarity. The auditors have been in some cases—and these are specific cases and I haven't looked at them very carefully myself—but there have been specific cases where the auditors were reluctant to provide their work papers, and there was no clear authority on the agency part to require those papers.

And the controversy was probably unnecessary. We hope it can be cleared up. It is not something that in every case the work papers would be required, but in a case where a Federal agency was conducting an investigation, rather than have to re-audit, themselves, and go through all the procedures, if they could examine the auditor's work papers in an investigatory situation, it might give them information that would enable them to close their investigation, either with positive or negative findings very quickly.

So we think it is inefficiency and we think there is precedent. We just wanted to clarify the authority of the Federal agency in the statute.

Mr. DODARO. If I might add to that, Mr. Chairman, one of the original objectives of having the Single Audit Act was to provide a foundation that other auditors could build upon. And it is difficult to be able to do that unless you can get access, ready access, to the work papers.

We think in this case the Federal Government is paying for these audits that are being required. And if there are followup activities, either from program monitoring or investigative activities, or build



upon audits by other auditors, access to the work papers, including the ability to make copies, provides an efficient way to do that.

Mr. HORN. Well, in your judgment does the statute that you have all worked on and we have submitted, does that cover that access to work papers sufficiently?

Mr. DESEVE. Yes, with the amendments.

Mr. HORN. You feel it does.

Mr. DESEVE. Yes, it does cover that.

Mr. DODARO. And I agree.

Mr. HORN. What kind of savings can the smaller nonprofits expect from raising the threshold for requiring a single audit? Do you have any feel for that?

Mr. DESEVE. I really don't. It is really so varied, because in some cases that small nonprofit might receive a small grant from the Federal Government, but actually be a fairly large entity itself and would be going through an audit process in any event. In other cases, an audit might cost \$10,000 or \$15,000 for an entity that was receiving \$120,000.

It might be—literally I had someone call the other day and they said, "Gee, we hope you get this act through before next year, because we can save \$10,000 or \$15,000 in audit fees a year?" So it is variable, but significant to the smaller ones especially.

Mr. HORN. So their indirect cost, if any, gets chewed up in doing an audit.

Mr. DESEVE. That's correct.

Mr. HORN. The OMB Director could authorize pilot projects under the Single Audit Act as amended. What type of these projects do you think would make sense and should be undertaken?

Mr. DESEVE. Well, I think both the idea of experimenting with risk-based audits and performance audits to begin looking very carefully at how entities should be handling both of those areas would be pilots in this. Those are the ones that I think of at this point.

Mr. DODARO. Also, Mr. Chairman, we have used the pilot concept under the CFO Act and the Government Performance and Results Act, and it has worked very well in allowing people to use some imagination and innovation and some very good things have come out of that. And I think the extension of that to single audit concept opens it up to the State and local level for a lot more experimentation as well. And I think a lot of good things will result.

Mr. HORN. The proposed amendments obviously have numerous references to the OMB Director. Give me an idea of how OMB handles this in terms of the delegations within. Is that primarily a delegation to the office that you hold, Mr. DeSeve?

Mr. DESEVE. Yes, it is. The Office of Federal Financial Management has oversight over all of the circulars that deal with both indirect costs and audits of State and local governments and nonprofit.

The career staff, under the direction of Mr. Jackson, who is here today, the Deputy Controller, field the questions and work with the agencies very closely and work with the State and local audit community. Mr. Jackson has been very active in soliciting their participation.

While we prepare the circulars, we think of ourselves more of as a coordinator of their preparation and let there be extensive comment over time, so that there are no surprises along the way.

Mr. HORN. Is there need for revision of the basic circular with the passage of this act? And is there a way to make that basic circular more understandable, simpler? Have you had feedback from the field on that, as well as within the Federal Government?

Mr. DESEVE. Yes, we have. And the revisions to A-133, which are in fact anticipating and consistent with this act, are in final clearance at OMB. We have had a tremendous amount of dialog over more than 2 years, within the Federal Government, outside the Federal Government, with our friends in GAO. So we feel very good about the fact that we can implement these changes.

Mr. HORN. The reason I ask that is I took a look at my income tax form for once this year, after the accountant got done with it, and I still think I'm right when I said that we should pass a rule that Members of the Congress would fill out their tax forms on the floor of the House with no lawyers and no tax accountants. And believe me, it would be simplified the next year.

And we haven't done it, and I'm just wondering if we ought to do something with circulars. If we can understand them, maybe everybody can understand them.

Each year OMB develops a list of entities that are subject to the Single Audit Act, which have not submitted their single audit report on time and communicates the information to Congress. What does OMB do with this information?

Mr. DESEVE. We also transmit it to the agencies as well. And it is really more a question of the agencies being aware of those concerns and being able to followup, the Inspectors General or others being able to followup. In some cases, frankly, Mr. Horn, nothing. I know the Department of Housing and Urban Development has decided that it is going to disband the unit that received, recorded, and noted those, and will only do it in conjunction with a normal audit process.

Mr. HORN. Does this—well, I take it, in the case of HUD now, we won't have anybody contacting the entities at all and asking them for the report or why they haven't sent it in?

Mr. DESEVE. That is correct.

Mr. HORN. OK.

Mr. DESEVE. In the larger entities, certainly again, they will go out—there are about, as I recall, 5,500 public housing agencies, for example. Some of them are very small, with fewer than 10 units. And HUD just decided that they were not going to have 20 or 30 people sitting in Cherry Hill, NJ, literally recording the fact that the report had been received.

Mr. HORN. Yes.

Mr. DESEVE. But rather redeploy those folks to do audits of the larger authorities that had historically had problems. I thought that was a very wise use of the resources.

Mr. HORN. So the reports will be noted if they are not received, I take it?

Mr. DESEVE. Correct.

Mr. HORN. And at what level is that? Will that be beyond HUD, at OMB level, or how are we worried about that?

Mr. DESEVE. We will receive the information at some point, but it may not be—we probably ought to look at that process.

Mr. HORN. Well, I'm just wondering if the word gets out nobody cares, will anybody care and anybody do any of it. Sometimes it is too late, because one of the real things you find with the nonprofits, and I hope the audits are looking at this, and it gets more nonprofits in trouble than anything I can think of, is when they are not forwarding those payroll taxes to Social Security, and they are living off it to solve their cash-flow problem.

And I can think of dozens of examples in California where that has happened, sometimes through innocence more than venality. They are new. They really don't know much about an organization and somehow they got a Federal grant, and here we are. And we ought to nail that or educate them on that somehow, somewhere, sometime.

Will any educational institutions and other nonprofits benefit from these basic amendments? I have asked you how much of an impact it is. I know it is hard to tell that, but can you give us any examples of some of the smaller nonprofits? You sort of mentioned them in passing.

Mr. DESEVE. I think the educational institutions will be pleased that it will formally be the case that they cannot—I don't want to use the word "harassed," but overseen and reviewed by multiple entities, but they now have legal protection that there will be a single review. I think you will hear them testify later today, the research institutions in particular, that that is a tremendous benefit of this bill, as well as the educational institutions.

Mr. HORN. How will the accountability for the use of the Federal funds be maintained, given that the thresholds are being raised? Do you have any feeling for that?

Mr. DODARO. I think that accountability can be maintained in several ways. First of all, there will be the requirement for those entities to keep records and be able to provide those records to anyone from the Federal level who wants to see them.

Mr. HORN. What is the time period on that under the law or your regulations? Three years, or what?

Mr. SKELLY. Time period for what, sir?

Mr. HORN. For retaining the records.

Mr. SKELLY. I believe it is 3 years.

Mr. HORN. It is 3 years, OK.

Mr. DODARO. So you have that record retention and record-keeping requirement. You also have the requirement that the pass-through entities at the State and local level have a requirement to monitor the subrecipients receiving the money. That could take the form of a limited-scope audit. It could take the form of some additional authority. And you also have the Federal entities themselves, if they have any concerns, can always go in and audit as well.

So we think that provides a reasonable set of requirements. And it also gives a lot of discretion to the State and local level to determine the best way, most cost-effective way to provide that accountability. They know a lot of these smaller institutions better than anyone and know what the track record has been.

Mr. HORN. When you are entering into the testing process and what you decide to test or not test under the risk-based approach, how do you go about doing that? Is there a standard pattern, or is this just sort of a random-sample judgment? And if so, are we using a table and random numbers or just instinct?

Mr. DODARO. Let me ask Mr. Skelly to answer that.

Mr. SKELLY. The draft guidance which OMB has produced identifies a number of factors auditors should consider: recent audit experience, whether there has been any program monitoring, past history of the program, whether the program is operated at a number of different locations, whether there are subrecipients involved—pretty objective the auditors could look at to look all the programs the entity operates and rank them according to risk and therefore decide where the audit resources should be devoted.

Mr. HORN. So certainly if you have had previous audits, you sort of know where some of the problems were and you want to see if they have been cleaned up. But if it is a first-time audit, I guess is what I'm wondering, is how are we making a risk judgment? Are we taking the agency's view for it, or do we just use instinct?

Mr. SKELLY. In the first-year audit, the auditor has the option of going back to the dollar criteria. Not having any prior knowledge, that would be an approach to get high dollar coverage the first year. And that would provide a basis for the future audits.

Mr. HORN. OK. Any comments on that from OMB?

Mr. DESEVE. Well, we think that that is appropriate. In the first year, we would expect that the auditors would almost always choose to exercise the audit coverage and then follow on from there if they found there were problems or there was a complicated situation that required continuous oversight.

Mr. HORN. If the agency—have we ever had the case where the agency objects to the particular programs that are being tested or does that just prove with “doth protest too much” we are going to look at you thoroughly?

Mr. DESEVE. We have not yet had the risk-based approach in place. It is one of the things that this act gives the ability to do. So the agencies have not yet protested. The agencies—again, we always have to realize that even our friends in the Inspector General offices, the State auditors' offices, are resource constrained. They are downsizing as everyone else is. So what they have had to do is prioritize themselves what they would audit. And even though they might be giving coverage, they would be giving less coverage to some entities and more to others.

Mr. DODARO. Mr. Chairman, also in our 1994 study of single audit implementation, we found that program managers, a large percentage of them at the Federal level and at the State level, were in favor of the risk-based approach, because certain programs never came up under the dollar criteria. So I think there is a good basis for this and a structured process in place with the auditors to cover it.

Mr. HORN. On the revised circular that is being prepared now, do we sit down with some clients on sort of a random sample basis and go through it and say, “Can you really understand this?” and “What would you have us explain a little more thoroughly than we have explained it?”

Mr. DESEVE. Very much so. There is a group called the Audit Forum that meets periodically that has very extensive participation by the clients, by the people who are being audited. And both GAO and OMB are there to discuss in great detail what is in the circular, the draft circular.

We get voluminous comments back and we then try to change the comments and go back out with a revised draft. So there is a great back and forth process, and with the industry, the audit industry as well.

Mr. HORN. Very good. Mr. Tate, the gentleman from Washington, any questions on this panel? I know you are here to introduce someone on the second panel and we are just about there, I think. Let me ask staff, do you want this put in the record. We are OK.

Let me just say, as usual, there might be some questions we have after the hearing. If you don't mind responding in writing, we would be most grateful.

So thank you very much for coming. It is always interesting testimony, and you always come well prepared, both of you. Thank you for starting off the hearing.

Mr. DODARO. Thank you, Mr. Chairman.

Mr. DESEVE. Thank you, Mr. Chairman.

Mr. HORN. We will now have panel two, and we have Mr. Main, Mr. Verdecchia, Mr. Sjoberg, Mr. Sheridan. And if you will stand and take the witness oath, we would appreciate it.

[Witnesses sworn.]

Mr. HORN. The clerk will note all four affirmed, and I believe Mr. Tate, the gentleman from Washington, who is a valuable member of this committee, would like to introduce the first witness.

Mr. TATE. Sure. First of all, thank you, Mr. Chairman, for having this hearing on this very important issue. And I'd like to introduce Mr. Main, from the great State of Washington—as we refer to it, the real Washington. Mr. Main is the VP and chief financial officer at Fred Hutchinson Cancer Research Center and has been there since 1984.

Fred Hutch, as we like to refer to it as, is one of the Nation's premier cancer research centers in the world. It employs over 2,000 people in the Seattle area and has a staff of some of the foremost experts in the area of cancer research as well as treatment, Mr. Chairman.

And before Mr. Main's service at Fred Hutch, he was the controller of the Washington Physician Services, which is a part of Blue Shield Health Insurance provider. And he also received an MBA at the University of Puget Sound and went to my alma mater, Western Washington University, and got a bachelor's in accounting, and is also a member of the American Institute of CPAs and the Washington Society of CPAs.

And, Mr. Main, I appreciate you taking the time to come all the way back, and I look forward to hearing your testimony.

Mr. HORN. Well, thank you very much. And we are going to start with Mr. Main, so please proceed. As you know, the general rule has been we try to summarize in 5 minutes. Your statements are automatically in the record the minute you are introduced, at the point in the record.

And I might add, just to those in the audience and others, that the hearing record will be open for at least a week or so. If there is anyone that would like to submit more written comments, feel free to do so. We are glad to insert them at the appropriate part in the record when a particular discussion has occurred. So we have got a week to do that. Anybody that wants to hit the computer, the old Underwood typewriter, or write it out, whatever way, just so we can read it.

Mr. Main.

**STATEMENTS OF RANDY MAIN, VICE PRESIDENT AND CFO, FRED HUTCHINSON CANCER RESEARCH INSTITUTE, ASSOCIATION OF INDEPENDENT RESEARCH INSTITUTES; ANTHONY J. VERDECCHIA, LEGISLATIVE AUDITOR OF MARYLAND, PRESIDENT, NATIONAL STATE AUDITORS ASSOCIATION; KURT R. SJOBERG, CALIFORNIA STATE AUDITOR, CHAIRMAN, SINGLE AUDIT COMMITTEE, NATIONAL STATE AUDITORS ASSOCIATION; AND TED SHERIDAN, PRESIDENT, SHERIDAN MANAGEMENT CORP., CHAIRMAN, COMMITTEE ON GOVERNMENT LIAISON, FINANCIAL EXECUTIVES INSTITUTE**

Mr. MAIN. Well, thank you. And good morning, Mr. Chairman. My name is Randy Main, and I am the vice president and chief financial officer of the Fred Hutchinson Cancer Research Center in Seattle, WA.

I am appearing before you today on behalf of the Association of Independent Research Institutes. This association is a national organization of over 85 nonprofit, independent research institutes conducting basic and clinical research in the biomedical and behavioral sciences. I am also an association vice president and served as the chairman of the cost policy committee of this association.

Before I comment on our support for the Single Audit Act amendments, let me briefly describe independent research institutes. Often founded in the first half of the century by a scientist and a philanthropist, institutes vary in size from small specialty labs to large, multi-disciplinary research centers. Two thirds of our members maintain annual research budgets below \$10 million. This is a fairly small institute.

Our institutes, which perform federally sponsored research, receive support from many Federal funding sources, especially NIH. Small institutes must follow the same Federal standards for compliance as larger organizations, but often without the advantage of extensive administrative capabilities. Thus, we have learned to be efficient and reliable stewards of Federal funds.

Mr. Chairman, the Association of Independent Research Institutes supports the Single Audit Act amendments which will be introduced in the House as a companion to S. 1579. One year ago, OMB proposed a major revision of OMB Circular A-133, which reflected many of the provisions of the Single Audit Act amendments, and many independent research institutions provided written comments supporting OMB's proposed revisions. The purpose and effect of the Single Audit Act amendments will further reduce unnecessary duplication of effort and make the components of a single audit—of a single overall audit of our institutions more consistent.

Even though many of the provisions incorporated under the amendments are already applicable to nonprofit organizations, the statutory change will further assure small institutions that the Federal audit requirements are uniform and flexible.

Examples of improvements in the amendments are greater flexibility for OMB to revise audit requirements as needed, higher thresholds, revised program audit selection based on risk, and shorter reporting timeframes. Let me give you examples of how the amendments would reduce the burden on nonprofit organizations while maintaining accountability of Federal funds.

Greater flexibility. For, example, flexibility with respect to subrecipient monitoring allows nonprofit organizations the ability to work with OMB to develop reasonable audit standards. Although the subrecipient monitoring described in the amendment could present problems for small entities that pass through to larger entities, we are hopeful that OMB will interpret this language to allow grantees to rely on audit reports of subrecipients.

Higher thresholds. Presently, OMB Circular A-133 requires audits from all entities receiving \$25,000 in Federal awards. OMB's proposed revision and the Single Audit Act amendments raise the threshold for audit to \$300,000. The increased threshold will reduce the small profit audit burden while maintaining significant coverage. Additionally, the amendments provide OMB the authority to review the audit threshold every 2 years and adjust the threshold further if needed.

Risk-based auditing approach. In addition to the increased audit threshold, independent research institutes support the new risk-based approach to auditing. The new approach will result in needed attention to areas where problems are more likely to occur, while maintaining need accountability over all. We support the so-called 50 percent rule for audit coverage and the flexibility for a lower percentage as specified by the Director of OMB.

Shorter reporting timeframes. Last, independent research institutes support the change in requirements for reporting. The present requirements have resulted in reports which have been difficult to use. The shorter reporting requirements for submission for a summary of audit findings together with a report prepared closer to the end of the reporting period will increase the utility of the audit to senior management and program officials.

Even though OMB is able to issue an amended circular A-133 which incorporates these improvements, independent research institutes support extension of the Single Audit Act to the nonprofit community to ensure consistent audit requirements for all Federal agencies.

Thank you and the subcommittee for the opportunity to present our views today. I will be happy to answer any questions.

Mr. HORN. Thank you very much. Our next witness is Mr. Anthony J. Verdecchia, legislative auditor of Maryland, president of the National State Auditors Association. Welcome.

Mr. VERDECCHIA. Good morning, Mr. Chairman, members of the subcommittee. I am hear today, along with my colleague Kurt Sjoberg, State auditor of California, to testify in support of the proposed amendments to the Single Audit Act of 1984. I would like to

make some general comments about the history and purpose of the act as well as the proposed legislation you are considering today.

I would also like to advise you of the substantial input that the National State Auditors Association has had in the development of this proposed legislation. Mr. Sjoberg will address some of the specific components of the legislation, but I would like to add that, in addition, that while my State uses a private CPA firm which is hired by the Maryland State Comptroller to conduct our single audit, California uses its State auditor. Therefore, Mr. Sjoberg can add the perspective of his office's actual experiences in conducting California's single audit, which is the largest single audit in the Nation.

In addition to fulfilling our respective State audit responsibilities, Mr. Sjoberg and I are active members of the National State Auditors Association. This association is comprised of State auditors, elected and appointed, with external financial and/or performance post-audit responsibilities on a Statewide basis. These auditors generally function at the State level in a manner comparable to the U.S. General Accounting Office at the Federal level. I am currently president of the association, and Mr. Sjoberg is currently chairman of the association's single audit committee.

I am very pleased to advise the subcommittee that the National State Auditors Association unanimously supports the proposed legislation to amend the Single Audit Act of 1984. We strongly believe this is an excellent measure that will help address the needs of Federal, State, and local government auditors and program managers by improving the single audit process. It deserves to be enacted as soon as possible, as the proposed legislation is nothing less than good government legislation developed by consensus.

Over the past year, our association, through the single audit committee, has worked very closely with the General Accounting Office and the Office of Management and Budget to provide input on the development of proposed legislation. The efforts of Jerry Skelly of GAO and Woody Jackson of the Office of Management and Budget should be recognized. These individuals were willing to work with us to understand our issues and concerns and try to address them in a reasonable manner. I think this is an excellent example of what a cooperative Federal-State partnership can accomplish.

I can honestly say that without this cooperative effort we would be here today to advise you of our concerns instead of our unanimous support.

My prepared remarks have some comments about the history of the act and I think I will pass over them since they have already been stated. But it is well understood that this act has, since 1984, done a lot to improve the overall financial management of State and local governments.

Nevertheless, those experiences over the past 12 years have led to knowledge of areas where we can make improvements. And we think that the improvements that have already been discussed, such as improved audit coverage by adding the nonprofits, reduction in the Federal burden on non-Federal entities through the raising of the threshold, the risk-based approach to make the audit more effective, and an improvement in the recording process, that



there will be a summary report that highlights the key findings and issues in the report will all be helpful and further enhance the effectiveness of this process.

As an individual State auditor and on behalf of the National State Auditors Association, I respectfully request that the House Subcommittee on Government Management, Information, and Technology support passage of this legislation. That concludes my remarks.

[The prepared statement of Mr. Verdecchia follows:]

**STATEMENT OF ANTHONY J. VERDECCHIA  
LEGISLATIVE AUDITOR OF MARYLAND  
BEFORE THE HOUSE  
SUBCOMMITTEE ON GOVERNMENT  
MANAGEMENT, INFORMATION AND TECHNOLOGY  
MARCH 29, 1996**

Good morning, Mr. Chairman and members of the Subcommittee. I am here today along with my colleague, Kurt Sjoberg, State Auditor of California, to testify in support of the proposed amendments to the Single Audit Act of 1984.

I would like to make some general comments about the history and purpose of the Act, as well as the proposed legislation before you today. I would also like to advise you of the input that the National State Auditors Association has had in the development of this proposed legislation. Mr. Sjoberg will address some of the specific components of the legislation. In addition, while my state uses a private CPA firm hired by the Maryland State Comptroller to conduct our single audit, California uses its State Auditor. Therefore, Mr. Sjoberg can add the perspective of his office's actual experiences in conducting California's single audit, which is the largest single audit in the nation.

In addition to fulfilling our state audit responsibilities, Mr. Sjoberg and I are active members of the National State Auditors Association. The Association is comprised of the state auditors, elected and appointed, with external financial and/or performance post audit responsibilities on a state-wide basis. These auditors generally function at the state level in a manner comparable to the United States General Accounting Office at the Federal level. I am currently President of the Association and Mr. Sjoberg is currently Chairman of the Association's Single Audit Committee.

I am very pleased to advise the Subcommittee that the National State Auditors Association has voted unanimously to support the proposed legislation to amend the Single Audit Act of 1984. We strongly believe this is an excellent measure that will help address the needs of Federal, state and local government auditors and program managers by improving the single audit process. It deserves to be enacted as soon as possible as the proposed legislation is nothing less than good government legislation developed by consensus.

Over the past year, the National State Auditors Association through our Single Audit Committee has worked very closely with the General Accounting Office and the Office of Management and Budget to provide input on the development of the proposed legislation. In this regard, the efforts of Jerry Skelly of the General Accounting Office and Norwood Jackson of the Office of Management and Budget should be recognized. The willingness of these individuals to understand the issues and concerns from the state auditor perspective and work to address these issues and concerns in a reasonable manner is an excellent example of what a cooperative Federal/state partnership can accomplish. I can honestly say that without this cooperative effort we would be here today to advise you of our concerns instead of our unanimous support.

At this time, I would like to make some brief remarks about the history and purpose of the Single Audit Act of 1984. Prior to enactment of this law, audits of Federal grants and programs were required and the resultant audit reports were to be filed with the applicable Federal agency. However, this process was deficient in that there was no effective system for achieving audit coverage of all grant programs, no effective coordination among Federal agencies, inconsistent Federal laws and agency regulations, and inefficient use or lack of audit resources. This situation

led to the development of the concept of a "single audit" to replace multiple grant audits. This "single audit" would be conducted of an entity as a whole with maximum reliance being placed on the work of non-federal auditors. Since passage of the Single Audit Act of 1984, improvements have been made in the financial management practices of state and local governments with respect to Federal financial assistance programs. Specifically, uniform auditing requirements have been established, a more efficient and effective use of audit resources has resulted and Federal reliance on the work performed by non-Federal auditors has increased substantially.

While the Single Audit Act of 1984 has been a key factor in the improvement of government financial management practices, amendments proposed in the legislation being discussed today will lead to further improvements, such as improved audit coverage, reduction in the Federal burden on non-Federal entities, increase in audit effectiveness and improvement in the single audit reporting process. As an individual state auditor and on behalf of the National State Auditors Association, I respectfully request that the House Subcommittee on Government Management, Information and Technology support passage of this proposed legislation.

Mr. Chairman and members of the Subcommittee, that concludes my prepared remarks. I will be glad to attempt to answer any questions.

Mr. HORN. We thank you. And now Mr. Kurt Sjoberg, the California State auditor.

Mr. SJOBERG. Good morning. It is a pleasure to be here today and support H.R. 3184. As was mentioned, my State performs the largest single audit in the Nation, and we have been doing that since the passage of the 1984 act. So we have more than 12 years experience doing this single audit.

You have my statement. I won't repeat what was said earlier this morning, but perhaps I might amplify on a couple of areas that I would like to emphasize for you.

First of all, you asked the earlier panel what things were like prior to 1984, and I have a specific example to share with you prior to the time when there were actually entity-wide audits being performed.

As a fairly young auditor 25 years ago, I did an audit—I then worked for the General Accounting Office—and there was actually a circumstance when one particular small agency was using the same receipt to support the payment for four different grants.

So in a sense, what they were doing, because each of these grants was being audited on a grant-by-grant basis, is when auditor No. 1 came in in the first week and questioned some of the costs that were being applied against that grant, they would show this particular receipt as one of the supporting documents. And then, when auditor No. 2 came, looking at a different grant for a different period of time, they would do the same thing.

So obviously the case for a coordinated audit came home to me early on. And that was the genesis behind the concept of a single audit. One auditor would come in and look at the system, all of the supporting documents in place, and thereby provide the opportunity for identifying these kinds of shenanigans that might have gone on.

So the Single Audit Act of 1984, I think, was by its very nature an important piece of legislation. And it has fulfilled its obligations in our view, as Tony Verdecchia mentioned, both from a perspective of my State audit colleagues, but also from our California point of view.

But having said that, we still have a situation where more than 10 years has elapsed since the 1984 act. And I think it is time to bring the changes in the auditing profession as well as the changes in financial management into the 1990's.

There are three elements of the act that I would like to highlight for you that are, in my view, particularly valuable. The first is the threshold issue, which has been discussed. From two points of view, and perhaps I will be somewhat parochial on this, from the small entity point of view, it has already been mentioned that there will be relief from auditing at the smaller level of local government and not-for-profit.

And that occurs because the threshold will be increased from \$100,000 to \$300,000. But as well, there are mid-level and higher level changes in the act, and for California and other large States it redefines what a major grant is, from \$20 million to \$30 million.

And by doing that, we will be relieved of having to audit some of the grants that we have been auditing over the years. And it will save us some audit costs, but it also will not reduce in any signifi-

cant manner the amount of coverage that we will be giving to Federal funds. Even with that change, we see that we will cover more than 95 percent of all the Federal money that California receives. So we see that as one of the benefits.

The other is the issue of risk-based auditing. And clearly, this is the perfect opportunity for us to focus our attention where, if you will, we will get more bang for our audit buck. We have been doing some of these audits for 14 years. And a lot of these agencies have gotten very smart after all these years, and they are not having any problems with their grants. Yet by rule and by law, we must repeatedly audit the same grants year in and year out.

Yet there are some where we as auditors know that there is higher potential for risk, as GAO mentioned. There are certain attributes that would be of concern. Yet the law, as currently written, would not allow us to substitute our work efforts in some of these areas that we have had no risk, or no findings, in years and years, to some area where there may be higher risk. And we think that is a very valuable element of this act.

And then finally, the area of pilot projects, which was mentioned earlier as well. We think that this will provide an opportunity, and let me give you two examples. We actually went to OMB and asked them for the ability to sort of expand some of our work in the Medicaid area in California—we call it MediCal—by doing some tests of the system, especially the payment process.

And, you know, they were supportive of it but could not allow us to do that in lieu of some of these other repetitive tests that we were required by law to do. It may also allow us to employ performance audit techniques, and we have done that in California for a long time, not as a part of our single audit, but a part of our other responsibilities.

In performance audits, we have seen payoff. We return to the State about \$9 for every \$1 we invest. So we see performance audits as potentially being valuable and being used by the—in the single audit so that we can look at Federal programs as well.

Mr. HORN. Just for the record, at this point, I usually don't interrupt witnesses, but why don't you describe what the performance audit has done for the review of the program as opposed to a non-performance audit.

Mr. SJOBERG. Yes. Well, the fiscal audit is the traditional one that most of us think of when we think of an audit, and that is to assure that the financial statements fairly represent what the agency is presenting and the books are in balance generally. Whereas a performance audit is oftentimes a review of how efficient managers are fulfilling their responsibilities and their promises to the State taxpayers or Federal taxpayers.

So we are looking for efficient operations as well as whether or not they are fulfilling the program purpose, and that is to say the results of the program. So they are much broader, oftentimes unrelated to the financial operations, yet they are the critical elements of what government is there to do. So we are looking at and trying to improve how well government is delivering its services. And, as I say, we have been doing them in California since 1969.

Mr. HORN. Are you familiar with the Oregon bench-marking projects?

Mr. SJOBERG. My colleagues in Oregon and I have chatted often about it as well as some of the activities in Minnesota and some of the other States. And we are—in California we have four pilot departments that are performance-based budgeted. And we as a State auditor are the agent who reviews those.

Mr. HORN. Yes. I happen to be a big fan of performance budgeting and of my 31 hearings last year the bench-marking hearing is the one I cared about the most. Obviously one of the problems here is getting agreement on what are the benchmarks between organization administering the program, audit reviews, clientele served.

And I just wonder, are these performance standards dreamed up by the auditors? Or is there some interactive agreement here that, yes, this is how we think we should be measured because this is what the law says we are supposed to be doing? And too often, as you know, these agencies just concentrate on process and they talk budget in terms of increments and process. And nobody asks, "Well, did you accomplish anything?"

And increasingly, more people are asking that, and I just wonder, is the chief auditor of a State or a university or whatever entity we are talking about in a position where they can really make those performance goals—I realize there are some standard goals we could both dream up on any agency and any organization. But just how do you go about that when you move into the performance area?

Mr. SJOBERG. Well, years ago we would build ad hoc performance measures. That is to say, the auditor would research the program's intent, what their purposes, objectives, mission should be. And we basically just created our own and measured the entity against them.

And oftentimes, as you might imagine by that process, they would disagree. They would say it is unfair to compare us against that standard, which we had not bought into. So it was clear—

Mr. HORN. What happens at that point, if they disagree?

Mr. SJOBERG. Well, we still issued our report, and the agencies would disagree. Yet, during the legislative process, the deliberation would continue. And then obviously in our case either the Assembly or the Senate would pursue it as they were pursuing that particular entity's budget.

What has evolved, and I think this is the direction it must go, is that all of the players and stakeholders, if you will, should be involved in accepting and ultimately buying into these benchmarks or measures.

The problem for us as auditors is to make sure that they are challenges, that these are not just simply achieved almost by caveat, without ever really having to do anything to stretch the activity. So there is a give and take here.

Now, what we have seen in our four pilot agencies, and we have looked at it, and we have challenged them on some of their measures. We said, "Well, you were doing these before, and you were doing them without really breaking into a sweat. Why are you setting this particular benchmark so low?" And so we have gone back and forth.

And I think that will take some years, to the point where we get to equilibrium, where the benchmarks really do provide that com-

bination: a reasonable goal to reach, yet one not reached so easily that they could do it without really streamlining and maximizing.

Mr. HORN. Do you find the State Assembly and the State Senators spending the time to really grapple with how that agency should be measured?

Mr. SJOBERG. The fiscal subcommittees seem to be grappling with that, in fact, as we speak.

Mr. HORN. And are they writing that in then so it is very clear to everybody what the benchmarks are?

Mr. SJOBERG. They are actually contracting with these pilot agencies and establishing these standards.

Mr. HORN. Very good. Well, go ahead. I didn't mean to get you off the track.

Mr. SJOBERG. I was actually at the point of my conclusion, and I was going to say that, again, we certainly appreciate your interest in this issue and I'll be happy to answer any questions you have.

[The prepared statement of Mr. Sjoberg follows:]

**Statement of Kurt R. Sjoberg  
State Auditor of California  
before the  
House Subcommittee on Government  
Management, Information and Technology  
March 29, 1996**

Good morning, Mr. Chairman and members of the Subcommittee. I am Kurt Sjoberg, the State Auditor of California.

It is a pleasure to speak to you in support of the "Single Audit Act Amendments of 1996." As California's State Auditor, my office is responsible for the largest Single Audit in the nation, an audit we have been performing since the Single Audit Act of 1984 took effect. As National State Auditors Association President Verdecchia mentioned, our association reviewed the original act and the need for amendments. This morning I will share the views of our state audit colleagues and my own, as the independent auditor of a large state.

Without a doubt, the Single Audit Act of 1984 has been an important cornerstone in the state and federal partnership over the financial accountability and oversight of federal grant and program funds. My state audit colleagues and I believe that the act has been a success and has fully met the objectives it was intended to achieve. We also believe, however, that after more than 10 years, there are improvements to the act that are needed to address changes in the auditing profession and in federal, state and local government financial management.

The Single Audit Act of 1984

Prior to the implementation of the Single Audit Act of 1984, audits in California by the state and federal government were often uncoordinated and ill-timed. It was not uncommon for a state or local agency to have several federal and state auditors reviewing their activities at the same time. Not only was this burdensome, but often the auditors would examine the same records to test compliance with regulations or appropriateness of expenditures. Due to this situation, federal, state and local government auditors and program officials joined forces in sponsoring and supporting the Single Audit Act of 1984 to alleviate this unneeded duplication and maximize the use of limited audit resources -- whether at the federal, state or local levels.

The Single Audit Act was premised on the concept that the recipient government would obtain a financial and compliance audit from a CPA or independent government auditor and the federal government would rely on this work. If the federal program agency or inspector general believed more in-depth auditing was needed on one of their programs, they would "build upon" the Single Audit, and thus, not duplicate audit work already performed.



### After Ten Years, There is a Need for the Single Audit Act Amendments of 1996

The Single Audit Act of 1984 has served us well, but over the past decade changes in the auditing profession, and in state and federal financial management, dictate that the act be amended. While there are several good reasons to amend the act, the following three are particularly noteworthy:

- **Current thresholds are too low:** Under the proposed amendments to the act, many smaller local governments and not-for-profit corporations will be relieved of unreasonable audit mandates. The proposed minimum threshold to perform a single audit would be increased from \$100,000 to \$300,000 in federal receipts. This will generate savings to local governments and not-for-profit corporations in reduced audit costs. Similarly, redefining major grant thresholds will reduce audit burdens at all levels. For example, in California, our major grant threshold will rise from \$20 million to \$30 million, reducing audit costs while only minimally reducing audit coverage of federal program expenditures.
- **Allow a risk-based audit approach:** Allowing the federal government and state and local auditors the discretion to focus audit resources where the potential for return is greatest makes good economic sense. Rather than being mandated to audit a particular grant year after year even when the potential for loss is low, using a risk-based approach allows the auditor to concentrate on programs that have been identified as "high-risk." This will certainly generate more corrective action and recoveries with the same audit investment.
- **Authorize pilot projects:** Allows the Director of OMB, in consultation with Congress, to authorize alternative audit methods to achieve the purposes of the act. This would allow selective use of such techniques as performance auditing to identify opportunities to increase the efficiency and effectiveness of state and local governments. In California, we have demonstrated the value of performance auditing by returning \$9 to state government for every \$1 we invest in audits.

Thank you, that concludes my statement. I will be happy to answer any questions the Subcommittee may have.

Mr. HORN. Very good. Our next witness is Ted Sheridan, president of the Sheridan Management Corp., and chairman of the Financial Executives Institution Committee on Government Liaison.

Mr. Sheridan.

Mr. SHERIDAN. Thank you, Mr. Chairman. We have appeared before this subcommittee and the full Committee of Government Reform and Oversight, and also the Senate Governmental Affairs Committee on many occasions over the years, all on behalf of good government and good financial management. And so I think it is appropriate that we have supported S. 1579 and the newly introduced H.R. 3184.

In addressing the issues, it could not be done with more clarity than you have done in your opening remarks, nor more eloquently than that in the preceding panel and the gentleman to my right, so we will dispense with the statement other than that we fully support these amendments.

I think your dialog with Mr. Sjoberg and also some remarks that Ed DeSeve made regarding performance is perhaps the most important issue that we could address at this time. As we see government devolve back to the States, we will require greater private sector participation from the point of view of addressing the social issues.

I think it is important—because in the case of FEI, we have 14,000 members. Most I would say have some involvement in organizations that are doing good works in their community. And to us I think it is important that they be able to operate under a single rule book, that the rules and regulations are quite clear. Also, by the same token, they should not be unnecessarily burdened.

And I think that as we see the amount that is being brought to bear under the problems come from \$90 billion to \$200 billion and grow larger, I think it is appropriate that risk-based measures and also the ceiling be raised.

I firmly believe that the tenets of the CFO Act, including its requirements for measurement, be joined with GPRA, Government Performance and Results Act, and that the two be meshed together so that we not only measure the outcomes of the programs, starting with the mission statement and going through a very well designed program to determine what they are, but using such things as activity based accounting, we actually go in and say where we are spending our money, and this would help us to link the performance and the financial statements that record what it costs to deliver that with the budgetary process and the whole review. So we are firmly in accord with that.

I would like to address one other thing and that is the fact that it was noted that the relief going from 13 months to 9 months is appropriate. I would suggest that that should be 6 months or less, but this is over a period of time. We in the private sector get our books done in an appropriate point in time. And as more responsibility devolves down to this level, I think we should expect that, too.

I am also going to take Mr. Peterson's remarks or his concern expressed by some of his friends from the auditing community regarding work papers, I was a CFO in the private sector for 20

years, and I was involved in many issues where we did ask for those papers and we always received it.

There were only two points in question and one is proprietary programs. Many of the auditing firms have proprietary computer programs, in particular. That is part of their working based. And we always respected that fact that those were proprietary.

The other thing is the notion of whim. There are those that are afraid that some young auditor will say, "Hey, I want your work papers" on a fishing expedition. And I examined this carefully. As a matter of fact, I went to GAO to get their thoughts on it. I spoke to Ed DeSeve on his. And I think that the safeguards, in terms of cause, that there has to be appropriate cause to seek these work papers. And if that is observed, I think that is a fair and equitable way to do it.

Last is the matter—I spoke to a couple of IGs in the cognizant agencies about their requirements to maintain and be aware of what goes on in the audit reports. And I think the notion of having a summary that brings it all together is totally appropriate. I also heard that the clearinghouse that keeps these audit reports, the manner in which it is done, is the traditional stacks of paper that people have to rifle through them.

And recognizing that the last two words in this committee's name and also its charter is "information" and "technology," I would submit that the best way that these audit reports should be entered into the system, recorded and retrieved is through some electronic commerce means, and using powerful kind of tools to go in and browse and find what the data is, I think that that is something that would improve the process considerably.

Thank you.

[The prepared statement of Mr. Sheridan follows:]

Good morning, my name is Ted Sheridan, President of Sheridan Management Corp. and Chairman of Financial Executives Institute's Committee on Government Liaison. FEI is a professional association of 14,000 chief financial officers, treasurers, and controllers from some 8,000 corporations throughout the United States. CGL formulates positions on economic and regulatory issues of concern to American businesses.

Since 1983 when the Private Sector Survey on cost control reported widespread examples of waste, fraud, and abuse in the Federal government, FEI has been committed to ensuring that these issues were systematically addressed by Congress and the Executive Branch. In 1988, FEI developed a position paper on Federal financial management reform, which included a series of recommendations that mirror many of the requirements of the Chief Financial Officers Act of 1990, passage of which FEI strongly supported.

Given our long history of support for improved financial management practices by the Federal government, it seems only logical that FEI is a strong proponent of S.1579, the Single Audit Act Amendments Act of 1996. I would like to point out at this time that neither FEI nor its constituents have a material, direct stake in the proposed legislation. However, as private citizens many of us participate in programs undertaken by small, local non-profit organizations. To that extent we are concerned with this issue of good government which provides more effective controls while reducing unwarranted regulatory burden.

From its beginning in 1984, the intent of the Single Audit Act was to provide assurances and accountability (without undo burdens), that the more than \$90 billion in federal grants was being properly funneled and spent by the then 10,000 plus state and local entities receiving the grants (the amount currently is \$200 billion). The single audit approach was designed to relieve these non-Federal entities from the requirement to conduct separate audits for each grant, instead allowing them to conduct one comprehensive "single audit" for the entire entity receiving the grant.

This simplified duplicate, overlapping audit activity by multiple Federal agencies and brought improved grantee-organization administrative and financial controls. This included instituting comprehensive annual audits, the installation of new systems and the implementation of comprehensive monitoring systems. Overall, the Act has been highly effective in providing the desired results.

Over 11 years have passed since the enactment of the Single Audit Act. As good as the 1984 Act has been, time has shown that it has some shortfalls that should be addressed:

- Many grantee entities such as non-profit organizations are not included in the process.
- Dollar-based thresholds that trigger audits have not been adjusted since 1984, and do not allow OMB flexibility to raise those thresholds.
- Dollar-based thresholds are the only criteria for conducting audits. Thus, many low risk grantees are audited annually while limitation of resources preclude the ability to audit entities with a high risk of non-compliance and perhaps material misstatement of condition.
- Length of time it takes to receive audit report after fiscal year (up to 13 months), which leads to stale information.
- Format of reports limits usefulness because of multiple auditor's reports without an overall summary of significant findings and the access to audits is cumbersome.

To address these shortfalls, S.1579 would amend the 1984 Act in the following ways:

- Include most federal grantees in the same process under unified guidance which will simplify administration.
- Raise dollar-based threshold from essentially \$25,000 to \$300,000. This reduces the audit burden for hundreds of non-Federal and non-profit entities while still ensuring that over 95% of Federal funds are audited. We feel this is cost effective and will not materially increase the risk of undetected fraud waste and abuse.
- Improve audits by creating risk-based criteria in addition to dollar-based requirements for conducting single audits.
- Shorten the time from 13 to 9 months in which the audit needs to be completed (actually we feel the targeted time period should progressively shorten to six months or less).
- Allow OMB flexibility periodically to review and revise criteria for conducting audits without having to amend the Act.
- Improve the content of reports by including a summary of the various auditor's reports regarding annual statements, internal controls and compliance with laws and regulations.
- Provide a Federal clearing house for audits which would give cognizant agencies easier access to pertinent material about grantees.

By taking these common sense steps to amend the 1984 act, Congress will not only improve upon the success of the Single Audit Act, but also improve the way Federal agency managers use this information to understand better the ultimate effectiveness (or ineffectiveness) of these Federal grants.

Based on discussions with Inspectors General of cognizant agencies responsible for specific grantee-organizations, we have concluded that there is one area in which implementation of the Act could be improved. This relates to the Federal clearing house for audits. We believe that the audit and related material should be transmitted, stored and retrieved by electronic means assisted by intelligent browsing and search engines. This would simplify and speed (to say nothing of reducing the cost) of the process and can be accomplished through currently operating technology.

Should concerned parties wish to learn more about this process, we at FEI would be pleased to arrange an opportunity to discuss it.

Thank you, Mr. Chairman. I would be happy to answer any of the Committee's questions.

Mr. HORN. Well, I think it is an excellent suggestion. I think you are absolutely right. We happen to believe more and more ought to be done on electronic filing. And we get a little static here and there from various groups that like the way it is.

What do you see developing in the software areas in terms of being able to monitor certain types of agency situations and sort of work in where the hot points might be in that kind of an overall review, when you are doing it electronically? Are those software models out there?

Mr. SHERIDAN. Yes, sir. They are extant right now and I would say that one thing that would be important is that as we devolve the activity down to the State and local level, that we make sure that we do employ electronic commerce, that there are meaningful and flexible standards so that when the information rolls back up-hill and we are in a position where we have to monitor it, that it comes in in such a fashion that it can accommodate the systems.

The ability to go in and browse the network and to be able to use real language kind of queries, that is there. It is available now. And I think it is the only way, as this world gets more complex and we have fewer people to do that. For instance, GAO is 25 percent smaller than it was only 2 years ago, and yet they are required to keep up the same level of monitoring. I think if we don't do this, and have total cooperation back down to the State and local level, it will be chaos.

Mr. HORN. Mr. Sjoberg, you are probably familiar with the California EPA and its clientele working on electronic filings there. We had a hearing where we had them as key witnesses. And the national EPA agrees with that and would like to do that nationally. Has any of that moved into the audit side, fiscally, of any agencies in California? Or where are we on that? We are doing that experiment on report filing, monitoring, so forth.

Mr. SJOBERG. And there are similar requirements with regard to large filers in certain of our sales tax and franchise and income tax filings from—so there are some efforts along those lines.

We have, internally, within our own office, automated all of our reports. They are accessible to anyone on the network. And there are systems in places wherein one could take a key word, such as "contract," and search our files of the history of the work that we have done and identify those audits in which contract was the subject.

So there are methods in place. We, as well, could submit our information to the cognizant inspector general through this means simply, because it starts that way in our own system, because we have to go through and exercise, actually, to make paper out of it. It is first and electronic medium.

Mr. HORN. Inspector general has been mentioned several times. Have you and your staffs, as fiscal auditors and some performance audit, found the inspector general reports useful? Do you build on them, or are they thorough enough so that when they have gotten into a particular situation you don't really need to do that much with it? What is your experience?

Mr. SJOBERG. Well, in using work of the inspector general, we have more limited experience because for the most part they are using our work. So it is more in the reverse. However, I mentioned



in my statement the issue of the Medicaid program and our interest in doing some work.

We are actually in the process of a joint effort with the Federal Inspector General for Health and Human Services and our staff to do that audit, even though we could not, because of the constraints of the law, have it within our single audit, I was able to identify resources within my authority to do that.

So we are in the process now of jointly working. And we will be one of probably five or six other States that are similarly working alongside the Inspectors General in doing some of these reviews.

Mr. HORN. This is strictly seeking opinion. I don't expect factual surveys on it. But in terms of Medicaid, Medicare, the role of the Inspector General, the role of States in fiscal audits on Medicaid—we call Medical—do you feel there seems to be adequate staffing there when the Federal Government comes in to look at a situation.

For example, the Inspector General of HHS told me a few months ago that \$8 billion had been collected last year in Medicaid-Medicare fraud. My own feeling is we need a separate Inspector General for Medicaid and a separate Inspector General for Medicare, because HHS, as you know, has long since passed the Pentagon in terms of the budget generally in HHS.

But since we have so much fraud and abuse in the Medicaid and Medicare areas, various subcommittees of the full committee in the past Congress investigated Medicaid fraud in New York, for example, which was just unbelievable. And I am sure that is going on all over the country, personally.

Do you get any feel for whether more resources are needed on the Federal side? Or should we simply leave that to the States, in the case of Medicaid, to worry about?

Mr. SJOBERG. Well, I think, as Mr. DeSeve mentioned, most every audit agency that I'm aware of has experienced some kind of downsizing. We ourselves have about a 40 percent reduction in our former staffing levels. And I think that there is no doubt that when that happens coverage in critical areas is reduced.

With regard to Medicaid, which the States would be more involved with than, say, Medicare, we have—there is no doubt in my mind that there are legions of areas where we could spend more time. And we see this as sort of an incremental process.

We think that with a change in the Single Audit Act, the time we are currently spending on this activity can perhaps be refocused to the higher risk areas and perhaps more of these joint efforts, as we are doing them.

So will that address everything that is ultimately needed? I doubt it. But within the ever-constraining reality of resources, I think that we are kind of looking at it as an incremental area. We hope to get more out of this, but clearly there is more that could be done.

Mr. HORN. Very good. We are joined by the ranking minority member, Mrs. Maloney of New York. And I would like to ask her if you have any questions to this panel or comments to make or opening statement, whatever.

Mrs. MALONEY. Yes, I do, Mr. Chairman. I would just like to have, if I could, my opening statement put in the record.

Mr. HORN. We will.

Mrs. MALONEY. And I am pleased to be co-sponsor for this legislation.

Mr. HORN. At the beginning of the hearing we will put the ranking member's statement.

Mrs. MALONEY. Thank you very much. I would just like to ask—this legislation would mandate risk-based selection of programs for testing during an audit. Please describe how that differs from current practices and whether or not you support this change? Just anyone who would like to comment.

Mr. VERDECCHIA. The current practice now is to select the testing just based on dollar amounts. This would allow us to bring in other factors such as if it is a new program, have there been findings in prior audits that are of concern that ought to be looked at.

So it brings in just a more effective audit approach than strictly auditing the dollars every year, the same dollars every year, where you found no problems. It gives some flexibility to the auditor to use judgment in deciding if this particular program is more important, even though it may not be the same amount of money, should we look at that one.

And it would be also—there would be also some involvement in OMB in establishing the criteria that would be used—that would be available to the auditors to make the selections.

Mrs. MALONEY. It also authorizes a series of pilot projects. And what type of pilot projects would you recommend?

Mr. VERDECCHIA. Well, I think that getting to the comment that we just talked about, performance auditing would be an excellent area. I know that the discussion we just had on Medicaid with respect to the inspectors general, I can speak from personal experience that the Department of Health and Human Services, the IG has been extremely active and aggressive in trying to get to work in partnerships with State auditors for the purpose of trying to get into these pockets of areas that Mr. Sjoberg referred to, because we both, I think, at the Federal and the State community feel that, a, this is big money, b, there is a lot of opportunity for recoveries and savings.

And we all have limited audit resources, so the concept of trying to work together certainly makes good sense.

Mrs. MALONEY. I must say, from my personal experience—I was a member of the City Council for 10 years before joining this body, and I referred several cases to the State, and the State then worked with the Federal Government and disclosed quite a bit of fraud that had come to my office. They got back to me. But they were very effective.

Sometimes I didn't think they were doing anything, but 6 months later, maybe even a year later, they would have a report that closed down some whole operation that was fleecing the public.

The proposed legislation will give the Director of OMB the authority to adjust the threshold for audits. Do you support this? What are the advantages of this provision? And also, it allows for an entity to petition for relief from the shortened time. Do you support that safeguard?

Mr. VERDECCHIA. Yes. It is a challenge at the State level, particularly in some of the larger States such as California, to meet

the reporting requirements of the current law, and as it is going to be moving.

We recognize—all the States recognize it is important to be timely, but some of these programs are so huge, there are so many rules and regulations, that it just takes a lot time to conduct an audit. But giving—with having OMB provide a safety valve, if you will, in the event there is a just cause to extend that period is certainly reasonable and appropriate.

Mr. SJOBERG. If I might, from the California perspective on that particular issue, the issue of 9 months. We have a circumstance where we think that under the optimal conditions we could reach perhaps 9 months and 3 weeks, or just a little bit shy of 10 months without having to put in place a major revamp of our accounting system. We are talking about a hundreds of million dollar investment in changing our accounting process.

So we are certainly supportive of the opportunity for a State going forward to an inspector general, for example, for relief, in the instance when the economic impact of meeting those few weeks might be as substantial as it would be in California.

So I think as a group our State auditors have all agreed with Mr. Sheridan in terms of we need to be as close to 6 months as we can possibly get to. There are certain external realities that many of us are faced with. And that is why we are looking for that one kind of condition where we might seek that relief.

Mr. SHERIDAN. Mrs. Maloney, I'm Ted Sheridan. I am sympathetic with that notion and we all have had this problem. But within a different context, when I suggested that we move it toward 6 months, we also have to remember that these audits will have an impact on the ability for the U.S. Government to close its books because in many cases the grantor will have to be responsible for certain things.

So I think there has to be a tightening of the whole process, but in these early years, indeed, the relief is appropriate when just cause is shown.

Mrs. MALONEY. Well, my time is up.

Mr. HORN. Go ahead.

Mrs. MALONEY. Well, first of all, I really want to apologize to you, Mr. Chairman. My daughter, I had a complication with my daughter this morning. She is not used to our congressional hours. She was here until 1 a.m., and just couldn't get going this morning.

And I apologize to you that I wasn't here to hear your opening statements. And I really hope that I am not asking you to repeat something that you have already been asked before. If you have, just tell me and I'll just read it in the record.

The auditors of State and local governments under the proposed amendments would no longer have to include inconsequential findings, a provision that nonprofit organizations already enjoy. What are the benefits of this change? Is that going to streamline operations, or what is that going to do?

Mr. VERDECCHIA. Well, it would allow for more effective use of the auditor's time to concentrate on the areas that are more material and dispense more quickly with the less material ones. It is just a matter of allocation of scarce resources, and an audit is in

effect testing in a sample anyway, so this just gives a little more flexibility, if you will, to the auditor.

Mrs. MALONEY. Why have a threshold at all? Now the threshold is going to be what, \$300,000 in this bill? Why not just have an internal policy that you mainly audit over \$300,000?

I just remember in New York City we had I think it was \$10,000 before our oversight and auditing powers kicked in or were used on grants. And we found out that there were lots of grants that were given for \$9,999. And they were usually the ones that were most questionable, that anybody with an IQ—or an 8-year-old, my daughter would have questioned it.

Why have any threshold at all? Then the grantors would be more cautious. I think that a lot of people know, well, I'm going to be under the \$300,000 threshold, I'm not going to be audited. Why have a threshold at all? Maybe you could have an internal policy that you are only going to look at a certain area. But if something questionable arises, even if it is \$50,000, why don't we put resources, particularly if it comes in a reliable source that this is a questionable program or project or contract?

Mr. VERDECCHIA. We did—this was discussed by one of the earlier panels, but I think it was a point to be made that there is nothing—there are some other provisions, other than audit, in place for monitoring those types of entities. There is the management oversight by the grantor or by the Federal Government, by the Federal agency's program management. There is a reporting process.

While there may not be an audit, there is financial information that is required to be submitted, summary information. There is a requirement for documentation. And if there was a particular problem or an area of concern, it certainly could be selected for audit.

Mr. SHERIDAN. Mrs. Maloney. I sit on the board of directors of several small technology companies, startup companies. And the attention that management must pay to being audited—there is no standard cost, but let us say \$15,000 for the audit of a small company is not unusual. There is a threshold level there where the attention of top management and the cost simply outweighs the risks.

And, as we all know, it is a testing process and it cannot attempt to stop everything. But I think that there is a point at which we have to have a cutoff. And I think that the one that they have chosen is reasonable. And I think giving OMB the opportunity to change that as circumstances go on, I think that is appropriate, too.

Mrs. MALONEY. From your point of view, does this legislation protect a company such as the ones that you are involved with, that they just have a Federal audit? Or can they then have a State and city? Is it limited to one audit?

Mr. SHERIDAN. Well, in the case of the companies, these are ones that are governed by the fact that they will be going public in the near future and they want to have audits. So they are not under any similar requirements, other than the fact that they are choosing to have an audit because they want to go forward and have to register. So they are doing it for different reasons.

Mrs. MALONEY. Well, I must say I support this legislation, Mr. Chairman, and I congratulate you on your leadership in moving it forward. I hope we will have quick passage.

Mr. HORN. We thank you very much. Let me just ask one last question. We mentioned A-133 primarily is the OMB circular. There is A-110. With all the discussion that has gone on and where it is now and where the revisions are going to be, is there anything that you feel is missing from the State auditor's standpoint in relation to Federal programs that perhaps we, OMB, whichever, whoever, ought to be considering?

Anything come to mind that has been left on the cutting room floor that the State auditors feel should not have been left on the cutting room floor?

Mr. SJOBERG. Well, we have, as was mentioned, had, I think, opportunity through the due process of the A-133 exposure to share our concerns. The audit forum that was mentioned includes local government auditors, State auditors, Federal auditors, from all the regions of the Nation. And we have had an active interchange on that.

I think your bill is the primary vehicle, we believe, that will improve this Federal, State, and local auditing relationship. OMB just does not have the power to do many of the things we have discussed, and only through statute will they be able to.

I think that, coupled with the exposure and due process of A-133, will in the combination be exactly what we need.

Mr. HORN. Some comment was made by several of you on the reporting time periods. What is the choice that you all recommend in this area?

Mr. SJOBERG. Well, the 9 months is exactly where we are all comfortable, with the option in those rare instances where it can't be accomplished because of some external, costly barrier. And I think we have had significant discussion in my committee of the single audit, amongst my colleagues on that, and we are in concert on the 9 months.

Mr. VERDECCHIA. That is a concern for a lot of the States. And the bill also provides a 2-year period to get to the 9 months, which will help us along in trying to meet it. And again, as I said before, there is a safety valve in case there is some unusual situation, that OMB could give us an extension, could give a State an extension.

Mr. HORN. OK. Last question. Is there anything you heard on the first panel or you have heard from your colleagues on this second panel that you disagree with and you want to get it in the record?

Mr. VERDECCHIA. No.

Mr. SJOBERG. Well, there is no disagreement. Congressman Peterson raised an issue that I think has been discussed a couple of times about access to working papers. And I must tell you, I really do not know how the concept of a buildupon audit, the whole premise under which single audit was created, will work if there isn't the ability of the follow-on auditor, in this case the Federal auditor, to review those work papers to assure that the unnecessary duplication of the old pre-1984 days does not recur.

So I really can't envision how we could relieve the auditor of having that responsibility.

Mr. HORN. What is the California law on that in terms of your working papers?

Mr. SJOBERG. Our working papers are public once we issue a report, unless they contain particularly confidential material on the face of the material itself, let's say medical records, for example, which are confidential. But the Federal agencies who have authority to access those kinds of records themselves, Health and Human Services, can come in and review our work papers in their entirety.

Mr. HORN. And you keep them how long?

Mr. SJOBERG. We keep them for 3 years unless requested to retain them longer.

Mr. HORN. Well, if you had a situation that looked like it was pay dirt, would you keep them more than 3 years? Is that a value judgment, essentially, of your staff?

Mr. SJOBERG. If anything is still pending—oftentimes there may be court cases in progress—we always obviously retain the material.

Mr. HORN. Good. OK. Any further comments? Any further questions?

Well, we thank you all very much for coming. It is very kind of you to do it. It has been a most useful hearing.

Let me just thank the staff that prepared this hearing, J. Russell George, the staff director and general counsel, sitting in the back; Anna Miller, to my left, the professional staff member directly involved on these matters; Andrew Richardson, our clerk; Mark Uncapher, professional staff member and counsel. And on the minority staff we have David McMillen and Mark Stephenson, two professional staff members. And our official reporter is Jan del Monte.

With that, the hearing is adjourned.

[Whereupon, at 11:10 a.m., the subcommittee was adjourned.]

